



## Washington State Legislature

January 16, 2013

Members of the Senate Higher Education and Ways & Means Committees,  
Members of the House of Representatives Higher Education and Appropriations Committees,

In 2012, the Legislature, via passage of the 2012 supplemental operating budget (3ESHB 2127), directed the Legislative Advisory Committee to the Committee on Advanced Tuition Payment (Advisory Committee) to:

*"(a) Review the impact of differential tuition rates on the funded status and future unit price of the Washington advanced college tuition payment program; and*

*(b) No later than January 14, 2013, make a recommendation to the appropriate policy and fiscal committees of the legislature regarding how differential tuition should be addressed in order to maintain the ongoing solvency of the Washington advanced college tuition payment program."*

In response to this directive, the Advisory Committee held three meetings (June 28, 2012, October 2, 2012, and December 11, 2012) to discuss these issues. During this process, the Advisory Committee obtained participation and feedback from staff to the GET Program, and the four-year public schools, in particular the University of Washington, Washington State University, and the Council of Presidents. The Advisory Committee also obtained the assistance of the State Actuary in reviewing the fiscal impacts of the various options on the unfunded liability of the GET Program (currently \$631 million).

The committee was unable to schedule a final public meeting to formally adopt its recommendations prior to the conclusion of the 62nd Legislature on January 14, 2013, when the 63rd Legislature was to be sworn into office. As a result of that impending event, at least three of the eight members of the Advisory Committee would become ineligible to continue serving as current members of the committee.

Instead of seeking the appointment of new members of the committee, I, as the chair of the Advisory Committee, elected to informally solicit the existing members of the committee, via email on December 31, 2012, to vote on how differential tuition should be addressed and on whether a recommendation should be put forward for closure of the GET Program.

As a result of this email vote, the Advisory Committee recommends:

- Closure of the GET Program;
- Modifications to statute to allow honoring GET contracts of all existing beneficiaries, rather than an immediate refund for those beneficiaries who are more than four years away from participation in higher education as is currently required in statute; and
- Allowing differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but only for those institutions that are not the basis for the value of a GET unit.

The attached report describes the efforts of the Advisory Committee over the 2012 calendar year and is submitted in response to the legislative directive.

Sincerely,

A handwritten signature in black ink that reads "Rodney Tom". The signature is written in a cursive, flowing style.

Senator Rodney Tom, Chair  
Legislative Advisory Committee to the Committee on Advanced Tuition Payment



## Washington State Legislature

### FINAL REPORT OF THE LEGISLATIVE ADVISORY COMMITTEE TO THE COMMITTEE ON ADVANCED TUITION PAYMENT

### RECOMMENDATIONS REGARDING THE GUARANTEED EDUCATION TUITION (GET) PROGRAM AND DIFFERENTIAL TUITION

January 16, 2013

---

#### EXECUTIVE SUMMARY

In 2011, the Legislature enacted E2SHB 1795, the Higher Education Opportunity Act, which provided universities the authority to set tuition rates for resident undergraduate students through the 2014-15 academic year. This legislation also expanded the authority of universities to charge differential tuition rates to resident undergraduate students.

As a result of concerns raised over the potential impact to the solvency of the GET Program, which as of June 30, 2012 has an unfunded liability totaling \$631 million, the Legislature temporarily suspended the authority to charge resident undergraduate students differential tuition rates in the 2012 supplemental operating budget. This suspension is in effect for the remainder of the current biennium and will expire on June 30, 2013.

The Legislature also directed the Legislative Advisory Committee to the Committee on Advanced Tuition Payment (Advisory Committee) to:

*"(a) Review the impact of differential tuition rates on the funded status and future unit price of the Washington advanced college tuition payment program; and*

*(b) No later than January 14, 2013, make a recommendation to the appropriate policy and fiscal committees of the legislature regarding how differential tuition should be addressed in order to maintain the ongoing solvency of the Washington advanced college tuition payment program."* (3ESHB 2127, Section 916, Subsection (9))

In response to this directive, the Advisory Committee held three meetings (June 28, 2012, October 2, 2012, and December 11, 2012) to discuss these issues. The Advisory Committee considered a variety of options for handling differential tuition all of which are outlined in Attachment #1. The Advisory Committee also discussed creation of a GET 2 Program and closure of the GET Program.

During this process, the Advisory Committee obtained participation and feedback from staff of the GET Program and the four-year public schools, in particular the University of Washington, Washington State University, and the Council of Presidents. The Advisory Committee also received information from a Senior Assistant Attorney General on an informal analysis of differential tuition authority and the GET Program. Additionally, the Advisory Committee obtained the assistance of the State Actuary in reviewing the fiscal impacts of the various options considered (addressing differential tuition, creation of a GET 2 Program, and closure of the GET Program) on the unfunded liability of the GET Program.

On December 31, 2013, the Chair (Senator Rodney Tom) solicited a final vote via email of the Advisory Committee. As a result of that vote, the Advisory Committee recommends:

- Closure of the GET Program;
- Modifications to statute to allow honoring GET contracts of all existing beneficiaries, rather than an immediate refund for those beneficiaries who are more than four years away from participation in higher education as is currently required in statute; and
- Allowing differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but only for those institutions that are not the basis for the value of a GET unit.

This report describes the efforts of the Advisory Committee over the 2012 calendar year and is submitted to the appropriate policy and fiscal committees of the legislature in response to the legislative directive.

## **BACKGROUND**

### GET Program

The Legislature established the GET Program (formally known as the Washington advanced college tuition payment program in statute) in 1997 to "help make higher education affordable and accessible to all citizens of the state of Washington by offering a savings incentive that will protect purchasers and beneficiaries against rising tuition costs." The intent of the program is to "promote a well-educated and financially secure population to the ultimate benefit of the state of Washington." (RCW 28B.95.010)

Statute further states that the GET Program "is an essential state governmental function" and that the contracts with eligible participants are "legally binding on the state." As a result, if "the moneys in the account are projected to be insufficient to cover the state's contracted expenses for a given biennium, then the legislature shall appropriate to the account the amount necessary to cover such expenses." (RCW 28B.95.050)

The unit payout value of a GET unit is not defined in statute, but instead in the GET contract. This value is defined as: "1 percent of the highest resident undergraduate tuition and fees at four-year state institutions of higher education for the academic year at the time of distribution."

Statute specifies a refund process should the State opt to close the GET Program. The language states that in the event that the State declares a discontinuance of the current program for any

reason, the program will cease to accept any further contracts and any beneficiaries who are more than 4 years away from graduation from a secondary school "shall receive a refund equal to the value of the current tuition units in effect at the time that the program was declared discontinued." (RCW 28B.95.090)

As of June 30, 2012, the GET Program has an unfunded liability of \$631 million.

#### Legislative Advisory Committee to the GET Committee

The Legislative Advisory Committee to the Committee on Advanced Tuition Payment (Advisory Committee) was created in 2011 via passage of ESSB 5749 to provide advice to the GET Committee and the State Actuary regarding administration of the program, including, but not limited to, pricing guidelines, tuition unit price, and unit payout value. The Advisory Committee is composed of eight members, 2 from each of the major caucuses in the House of Representatives and the Senate, and was directed to meet at least annually. The current members are: Senator Lisa Brown, Senator Mike Hewitt, Senator Andy Hill, Senator Rodney Tom (Chair), Representative Gary Alexander, Representative Bob Hasegawa, Representative Ed Orcutt (Vice Chair), and Representative Chris Reykdal.

#### Differential Tuition-Setting Authority

Beginning with the 2002-03 academic year, the public four-year institutions of higher education were given the authority via a budget proviso to set tuition for non-resident undergraduate students. In 2003, the Legislature enacted ESSB 5448 which formally placed in statute this authority and gave the schools additional authority to charge non-resident undergraduate students differential tuition rates for all or portions of an institution's programs, campuses, courses, or students.

In 2011, the Legislature enacted E2SHB 1795, the Higher Education Opportunity Act, which provided universities the authority to set tuition rates for resident undergraduate students through the 2014-15 academic year. This legislation also expanded the authority of universities to charge differential tuition rates to resident undergraduate students.

As a result of concerns raised over the potential impact to the solvency of the GET Program, the Legislature temporarily suspended the authority to charge resident undergraduate students differential tuition rates in the 2012 supplemental operating budget. This suspension is in effect for the remainder of the current biennium and will expire on June 30, 2013.

In August of 2012, an informal opinion produced by the Attorney General's Office at the request of some members of the GET Committee was provided to members of the Advisory Committee. This informal opinion found the following:

- The GET contract incorporates the concept of differential tuition
- If an established differential tuition rate is the highest resident undergraduate tuition and fees, it shall be the value upon which the GET payout value is established
- An institution may not pass on excess operating costs in the form of special fees without implication to the GET payout value

When the Legislature temporarily suspended the authority to charge differential tuition rates in the 2012 supplemental operating budget, they also directed the Legislative Advisory Committee to the GET Committee (Advisory Committee) to "review the impact of differential tuition rates on the funded status and future unit price" of the GET Program and to "make a recommendation to the appropriate policy and fiscal committees of the Legislature regarding how differential tuition should be addressed in order to maintain the ongoing solvency of the GET Program by January 14, 2013." (3ESHB 2127, Section 916, subsection (9))

## GET 2

SB 5749 was introduced during the 2011 legislative session. This bill would have created a GET 2 program. The original version of this bill did the following:

- Redefined "tuition and fees" to include operating fees and building fees, but no longer included services and activities fees.
- Redefined the payout value for new purchasers to be the price of tuition and fees at the time of purchase multiplied by the average percentage increase in resident undergraduate tuition and fees at all state colleges weighted by the number of full-time equivalent resident undergraduate students.
- Shortened the length of time for beneficiaries to use their tuition units from 10 years to 6 years.
- Modified the amount of the refund for individuals who choose not to participate in higher education from the current value of tuition units less administrative fees and any applicable penalties to the lesser of: 1) the actual dollar value of contributions plus actual interest earned, or 2) the newly redefined payout value less administrative fees and any applicable penalties.

The enacted version of the bill (ESSB 5749) did not create a GET 2 program and instead created the Legislative Advisory Committee to the GET Committee and involved the State Actuary in the process of establishing a tuition unit price used in ensuing enrollment periods.

*(NOTE: Please refer to Attachment #6 for additional considerations of creating a GET 2 program that the Advisory Committee has contemplated.)*

## **ADVISORY COMMITTEE'S ANALYSIS OF THE GET PROGRAM AND DIFFERENTIAL TUITION**

To satisfy the directive of the budget proviso, the Advisory Committee held a series of meetings over the 2012 interim to discuss the GET Program and, in particular, the issue of differential tuition.

### Meeting #1 - June 28, 2012

The agenda for this meeting included the following:

1. Meeting Overview
2. GET Program Update

3. Actuarial Analysis of the GET Program
4. Overview of Differential Tuition and Potential Options
5. Committee Discussion and Preliminary Recommendations

During this meeting, the Advisory Committee reviewed a variety of options for addressing differential tuition (see Attachment #1). Although there was not a consensus for one particular option at this meeting, the Advisory Committee expressed their interest in ensuring that additional negative impacts to the current unfunded liability not occur with any option that is chosen.

The Advisory Committee requested that they receive, at the next meeting, legal clarification on various aspects of the GET Program, particularly as it relates to differential tuition along with the legal definitions of key terms. Additionally, the Advisory Committee expressed their interest in working with the schools to come up with a solution for handling differential tuition, and to work with the State Actuary for fiscal analyses of the various options for handling differential tuition.

#### Meeting #2 - October 2, 2012

The agenda for this meeting included the following:

1. Meeting Overview
2. Legal Analysis of GET and Differential Tuition
3. Panel Discussion of Options for Addressing Differential Tuition and Potential Discussion of GET 2

During this meeting, the Student Achievement Council shared with the Advisory Committee the informal opinion from the Attorney General's Office (see Attachment #2) that members of the GET Committee had requested to answer three specific questions:

1. May the Committee on Advanced Tuition Payment (a.k.a. GET Committee) take differential tuition into account in setting the unit payout value of a GET tuition unit where the GET Master Agreement incorporates state institutions of higher education fee statutes that do not mention differential tuition? In other words, does the GET Master Agreement necessarily incorporate the concept of differential tuition?
2. If a four-year state institution of higher education adopts a tuition fee for one program that results in that program paying the highest resident undergraduate tuition and fees at a four-year state institution of higher education, must that fee determine the GET unit payout value?
3. May a state institution of higher education pass on excess operating costs to students in the form of special fees without implicating the unit payout value in the GET Program?

The findings of this opinion are summarized as follows:

- The GET contract incorporates the concept of differential tuition
- If an established differential tuition rate is the highest resident undergraduate tuition and fees, it shall be the value upon which the GET payout value is established
- An institution may not pass on excess operating costs in the form of special fees without implication to the GET payout value

This informal opinion included legal analyses of various definitions, which satisfied the Advisory Committee's request for this additional information.

The Advisory Committee also received actuarial analyses from the State Actuary of the impacts to the GET Program of two options for dealing with differential tuition as well as an actuarial analysis of the impact to the GET Program if state funding were provided (see Attachments #3, #4, and #5). In addition, using the information provided by the State Actuary, legislative staff provided a fiscal summary of the various options for addressing differential tuition (see Attachment #1).

The Advisory Committee held a panel discussion with staff of the GET Program, the State Actuary's Office, and the schools. Conversation included how best to handle differential tuition, the potential of creating a GET 2 (see Attachment #6), and the possibility of closing the GET Program (see Attachment #6). During this discussion, legal questions regarding equal protection were raised of a specific option for addressing differential tuition (Option B - Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but exempt charges (via institutional waivers) above base tuition at state colleges and universities for all GET participants). There was concern that this option would involve charging two separate tuition rates for GET students and non-GET students. The Advisory Committee asked that legislative staff meet with the Attorney General's Office to clarify this issue. An email clarification that there are not any equal protection issues associated with Option B (since tuition rates for GET students and non-GET students would be the same) was sent to members on October 17, 2012 (see Attachment #7)

### Meeting #3 - December 11, 2012

The agenda for this meeting included the following:

1. Legal and Fiscal Clarification of Option B
2. Panel Discussion of Differential Tuition and GET 2
3. Final Recommendations

At this meeting, legislative staff provided legal clarification that there are not any equal protection issues associated with Option B since tuition rates for GET students and non-GET students would be the same. Legislative staff also provided additional information to clarify the fiscal impacts associated with this option (see Attachment #8).

The Advisory Committee discussed options for handling differential tuition, including a proposal offered by the Chair, Senator Rodney Tom (see Attachment #9), and closure of the GET Program. The Advisory Committee was unable to obtain the required five affirmative votes in order to offer formal recommendations.

### **RECOMMENDATION OF THE ADVISORY COMMITTEE**

The committee was unable to schedule a final public meeting to formally adopt its recommendations prior to the conclusion of the 62nd Legislature on January 14, 2013, when the 63rd Legislature was to be sworn into office. As a result of that impending event, at least three



of the eight members of the Advisory Committee would become ineligible to continue serving as current members of the committee.

Instead of seeking the appointment of new members of the committee, the chair, on December 31, 2012, elected to informally solicit the existing members of the committee, via email, to vote on the following questions:

1. *Differential Tuition:*

a. *Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but only for those institutions that are not the basis for the value of a GET unit (i.e., UW), and as long as the differential tuition amount does not exceed the GET unit payout value and does not increase the GET liability.*

\_\_\_\_\_ YES

OR

b. *Disallow differential tuition for resident undergraduate students at public baccalaureate institutions (repeal the effects of E2SHB 1795 on differential tuition).*

\_\_\_\_\_ YES

2. *GET Program:*

a. *Should we make a recommendation to the Legislature regarding the closure of GET?* \_\_\_\_\_ YES \_\_\_\_\_ NO

b. *If YES, should we recommend the closure of the GET program while honoring all current beneficiaries through payout, contrary to the statutory direction for closure (i.e., Tuition units for beneficiaries enrolled in higher education or within four years will be honored; all other contract holders shall receive a refund equal to the value of the current tuition units when the program is discontinued). The legislation would direct the discontinuation in as expedited manner as feasible, while considering how best to minimize the impact on the GET liability.*

\_\_\_\_\_ YES

Members were asked to submit their votes (see Attachment #10) to legislative staff no later than Friday, January 4, 2012. As a result of that vote, the Advisory Committee recommends:

- Closure of the GET Program;
- Modifications to statute to allow honoring GET contracts of all existing beneficiaries, rather than an immediate refund for those beneficiaries who are more than four years away from participation in higher education as is currently required in statute; and
- Allowing differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but only for those institutions that are not the basis for the value of a GET unit.

**OPTIONS FOR ADDRESSING DIFFERENTIAL TUITION IMPACTS ON THE GET PROGRAM**

Current Unfunded Liability (as of June 30, 2012): \$631 million

Current Tuition Unit Price (for academic year 2012-13): \$172

OPTION	CONSIDERATIONS	FISCAL IMPACT			
		5% above base tuition	10% above base tuition	20% above base tuition	50% above base tuition
A	<p>Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013 without changes.</p> <p>State institutions maintain the flexibility they desire to charge differential tuition rates to raise additional revenue to offset what the institutions assert are costs associated with more expensive degree programs (e.g. engineering).</p> <p>The GET Program will be legally obligated to include differential tuition charges in the GET payout for current contract holders, which would negatively impact the solvency of the GET Program and require increases in the price of a GET unit.</p>	<p>Unfunded liability increases by \$139 million</p> <p>Unit price increases by \$14</p>	<p>Unfunded liability increases by \$279 million</p> <p>Unit price increases by \$29</p>	<p>Unfunded liability increases by \$558 million</p> <p>Unit price increases by \$76</p>	<p>Unfunded liability increases by \$1,395 million</p> <p>Unit price increases by \$314</p>
B	<p>Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but exempt charges (via institutional waivers) above base tuition at state colleges and universities for all GET participants.</p> <p>State institutions maintain the flexibility they desire to charge differential tuition rates but will be required to provide waivers to current contract holders to cover the cost difference between the “base tuition” and differential tuition rate. This will result in foregone revenue for state institutions.</p> <p>The GET Program will be legally obligated to include differential tuition charges in the GET payout for current contract holders who attend out-of-state, private, and for-profit institutions of higher education, which would negatively impact the solvency of the GET Program and may require increases in the price of a GET unit. As a result, an exemption at state institutions (via institutional waivers) may reduce, but not eliminate, any negative impacts on the solvency of the GET program and GET unit price.</p> <p>The payout value of all unredeemed GET credits increases to match the highest costs undergraduate differential tuition rate. This could negatively impact the solvency of the GET program.</p> <p>GET value above and beyond what is needed in any given year can be carried forward for use in additional years of higher education. However, there may be additional negative impacts to the unfunded liability beyond those noted in the actuarial analysis of this option if students instead pursue refunds (the value of GET units less applicable tax penalties) for the balance of their GET account upon completion of their educational program.</p>	<p>Unfunded liability increases by \$36 million</p> <p>Unit price increases by \$3</p>	<p>Unfunded liability increases by \$73 million</p> <p>Unit price increases by \$6</p>	<p>Unfunded liability increases by \$147 million</p> <p>Unit price increases by \$14</p>	<p>Unfunded liability increases by \$368 million</p> <p>Unit price increases by \$39</p> <p>NOTE: There may be additional negative impacts to the unfunded liability beyond those noted if students pursue refunds (the value of the GET units less applicable tax penalties) of any remaining value of their GET units from the GET account.</p>

OPTION	CONSIDERATIONS	FISCAL IMPACT			
		5% above base tuition	10% above base tuition	20% above base tuition	50% above base tuition
C	<p>Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but add a cap.</p> <p>State institutions lose some of the ability to charge differential tuition rates.</p> <p>The GET Program will be legally obligated to include differential tuition charges in the GET payout for current contract holders, which would have an impact on the solvency of the GET Program and may require increases in the price of a GET unit. As a result, a cap will reduce, but not eliminate, any negative impacts on the solvency of the GET program and the GET unit price.</p>	<p>If a cap is established at some level that is less than those noted above, then the impact to the GET program will be smaller than those noted in Option A above.</p>			
D	<p>Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but only for those institutions that are not the basis for the value of a GET unit</p> <p>All but one state institution maintains the flexibility they desire to charge differential tuition rates.</p> <p>Reduces, and may eliminate, the potential negative impact on the solvency of the GET Program and the GET unit price; although some risk remains that a school with differential tuition rates could increase rates to a level that would have an impact on the GET Program.</p>	<p>No impact provided the differential tuition rate does not become the basis for valuing GET units.</p>			
E	<p>Clarify in statute that differential tuition is not to be considered part of tuition for the purposes of calculating the GET payout value.</p> <p>State institutions maintain the flexibility they desire to charge differential tuition rates.</p> <p>According to the informal Attorney General opinion, this will not prevent differential tuition charges from being calculated in the payout value for future contract holders but not for current contract holders, which would negatively impact the solvency of the GET Program and require increases in the price of a GET unit.</p>	<p>Most recent legal analysis indicates that impacts to the GET program will be the same as for Option A above.</p>			
F	<p>Disallow differential tuition for resident undergraduate students and allow unique program fees that are separate from tuition. (SSB 6399)</p> <p>State institutions could use this fee authority in place of differential rates to raise revenue.</p> <p>According to the informal Attorney General opinion, the GET Program will be legally obligated to include these fees in the GET payout for current contract holders, which would negatively impact the solvency of the GET Program and may require increases in the price of a GET unit.</p>	<p>Most recent legal analysis indicates that impacts to the GET program will be the same as for Option A above.</p>			
G	<p>Disallow the implementation of differential tuition for resident undergraduate students only (repeal the effects of E2SHB 1795 on differential tuition).</p> <p>State institutions maintain the ability to charge differential tuition rates to non-resident undergraduate students.</p> <p>Eliminates the flexibility desired by state institutions to charge differential tuition rates for resident undergraduate students.</p> <p>Eliminates the potential negative impact on the solvency of the GET Program and the GET unit price.</p>	<p>No impact</p>			

OPTION	CONSIDERATIONS	FISCAL IMPACT			
		5% above base tuition	10% above base tuition	20% above base tuition	50% above base tuition
H	Disallow all authority to charge differential tuition rates.	No impact			
	Eliminates the authority given institutions in 2003 to charge differential tuition rates to non-resident undergraduate students.				
	Eliminates the flexibility desired by state institutions to charge differential tuition rates for resident undergraduate students.				
	Eliminates the potential negative impact on the solvency of the GET Program and the GET unit price.				
I	Allow differential tuition authority under E2SHB 1795 to take effect July 1, 2013, but require institutions that charge differential rates to remit a portion of the revenue collected to the GET Account	Impact to the GET Program is as described in Option A above. There is a possibility that if enough tuition revenue is remitted to the GET Account that the impact could be lower.			

### FISCAL IMPACT TO THE GET PROGRAM OF INCREASING STATE SUPPORT

Current Unfunded Liability (as of June 30, 2012): \$631 million

Current Tuition Unit Price (for academic year 2012-13): \$172

OPTION	CONSIDERATIONS	FISCAL IMPACT	
		State funding as a share of state funds + tuition remains constant	State funding as a share of state funds + tuition increases to 40% over 6 years
J	Increase state support	Unfunded liability <u>decreases</u> by \$158 million  Unit price <u>decreases</u> by \$9	Unfunded liability <u>decreases</u> by \$493 million  Unit price <u>decreases</u> by \$30



Rob McKenna  
**ATTORNEY GENERAL OF WASHINGTON**  
 Education Division  
 PO Box 40100 • Olympia, WA 98504-0100 • (360) 753-6200

**MEMORANDUM**

DATE: August 6, 2012

TO: James L. McIntire, State Treasurer  
 Don Bennett, Executive Director, Student Achievement Council,  
 Chair, GET Committee

FROM: *DS* Dave Stoller, Sr. Assistant Attorney General  
 Trish Nightingale, Assistant Attorney General

SUBJECT: **Advanced Tuition Payment Program -- Differential Tuition Authority**

You have asked a series of questions related to the impact of the use of differential tuition by state institutions of higher education (IHE) on the Advanced College Tuition Payment Program, commonly known as the "guaranteed education tuition", or "GET" program. Hereinafter, we refer to this program as GET, the Program, or the GET Program. As used in this memo, the term "differential tuition" means a charge by an IHE for tuition fees, as defined in statute, that is not uniform for all resident undergraduate students within that institution. We have paraphrased the questions as follows:

1. May the Committee on Advanced Tuition Payment take differential tuition into account in setting the unit payout value of a GET tuition unit where the GET Master Agreement incorporates state IHE fee statutes that do not mention differential tuition? In other words, does the GET Master Agreement necessarily incorporate the concept of differential tuition?
2. If a four-year state IHE adopts a tuition fee for one program that results in the students in that program paying the highest resident undergraduate tuition and fees at a four-year state IHE, must that fee determine the GET unit payout value?
3. May a state IHE pass on excess operating costs to students in the form of special fees without implicating the unit payout value in the GET Program?

CONFIDENTIAL ATTORNEY/CLIENT PRIVILEGED COMMUNICATION  
 DO NOT DISCLOSE

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 2

**BACKGROUND****A. The GET Program.**

The legislature established the GET Program in 1997 to “help make higher education affordable and accessible to all citizens of the state of Washington by offering a savings incentive that will protect purchasers and beneficiaries against rising tuition costs.” RCW 28B.95.010. More specifically, an eligible purchaser may enter into a Tuition Unit Contract (hereinafter, Master Agreement or GET Master Agreement) with the state agreeing to purchase in advance one or more “tuition units” for a student beneficiary, to be redeemed in a future year for an equal number of tuition units, regardless of any increases in the price of tuition occurring in the interval. RCW 28B.95.030(2)(a). Pursuant to the terms of the Master Agreement, the account owner purchases tuition units all at once, monthly, or a combination of the two. These payments are deposited in the Advanced College Tuition Payment Program Account (Program Account) pursuant to RCW 28B.95.070 and managed by the State Investment Board. The student beneficiary may redeem these tuition units for undergraduate education at a state IHE at the tuition unit payout value as determined by the GET Committee and stated in the contract. RCW 28B.95.030 (2) (b). Alternatively, the student beneficiary may redeem the tuition units for graduate education or for education at a non-state (or out-of-state) IHE at the unit payout value for state public IHE in effect at the time of redemption. RCW 28B.95.030(3)(b).

The contracts entered into between the state and the GET account owners are, by statute, “contractual obligations legally binding on the state.” RCW 28B.95.050. Additionally by statute, the legislature is legally obligated to appropriate funds, if necessary, to meet any shortfall between the money in the Program Account and the state’s contractual obligation to fund tuition units. *Id.* Thus, the legislature guarantees that purchased tuition credits will be paid in accordance with the state’s contractual obligations as set forth in the GET Master Agreement.<sup>1</sup>

The GET Program is governed by the Committee on Advanced Tuition Payment (GET Committee or Committee). RCW 28B.95.030. The Committee must administer the Program in an actuarially sound manner, but is otherwise given discretion in a variety of aspects of managing and administering the Program. Most important for purposes of this analysis, the legislature has delegated to the Committee the authority to annually determine the current value of a tuition unit and the number of tuition units necessary to pay for a full year’s, full-time undergraduate tuition and fee charges at a state IHE at the time a purchaser enters into a Tuition Unit Contract. *Id.*

---

<sup>1</sup> See AGO 2000 No. 5, which concludes RCW 28B.95.050 constitutes a state guarantee of the GET program.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 3

**B. The GET Master Agreement (Tuition Unit Contract).**

The contract between the state and each GET account owner takes the form of a Master Agreement containing more specific details as established by the Committee in accordance with its statutorily delegated authority. An eligible purchaser interested in participating in the GET Program may initiate the process by submitting an application to the GET Committee. Since its inception, the Program has offered an eligible purchaser a choice of two purchase plans to fund the future higher education of the designated student beneficiary. These plans are the Lump Sum Plan and the Custom Monthly Payment Plan. Purchasers may use either plan independently or in combination.

Upon acceptance of the application by the Committee, a contract is created between the state and the applicant, who is now an account owner. The terms and conditions are set forth in the Master Agreement. These terms are legally binding contractual obligations that commence with the Committee's acceptance of the account owner's offer. These terms include a set purchase price for each tuition unit the account owner promises to purchase in exchange for the state's guarantee to pay the student beneficiary, at a future date, the "unit payout value" for each tuition unit purchased. Under the Custom Monthly Payment Plan, the account owners pay the same tuition unit price throughout the contract term. The purchase price under a Lump Sum Plan, however, is set at the then current unit purchase price, which is updated each year by the Committee. Under both plans, the formula used to determine the "unit payout value" for each purchased tuition unit takes into account the "highest resident undergraduate Tuition and Fees at four-year State Institutions of Higher Education for the Academic Year at the time of distribution."

The Master Agreement contains some definitions that are relevant to answering the questions you have posed. The following are taken from the November 2011 Master Agreement:

GG. 'Tuition and Fees' means resident undergraduate tuition and mandatory services and activities fees, as defined in RCW 28B.15.020 and 28B.15.041 rounded to the nearest whole dollar. State-mandated fees are those provided by statute, including operating, building and student activity fees. They do not include institutionally mandated fees that may be required at each individual school. Schools may impose their own fees, such as technology, library, recreation and fees to secure repayment of bonded indebtedness, and other types of fees. These fees are not considered state-mandated fees and, therefore, are not covered in the payout value amount.

HH. 'Tuition Unit' or 'Unit' means 1/100<sup>th</sup> of the highest resident undergraduate Tuition and Fees at four-year State Institutions of Higher Education for the Academic Year at the time of distribution.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 4

II. 'Unit Payout Value' means 1 percent of the highest resident undergraduate Tuition and Fees at four-year State Institutions of Higher Education for the Academic Year at the time of distribution.

Master Agreement, Section I. The Master Agreement also expressly confirms that enrollment in the Program establishes a binding agreement between the state and each account owner. *Id.* II.B.1 and VIII.F. Further, the Master Agreement expressly provides that the state of Washington "guarantees that purchases of the Tuition Units will be worth the same number of Tuition Units at the time of redemption as they were worth at the time of the purchase. *Id.* at VIII.F

### C. Fees Assessed by State IHE.

All state IHEs are required to charge and collect from each student registering at its institution "tuition fees," "service and activities fees," and "other fees" as the governing board "shall in its discretion determine." RCW 28B.15.100. The legislature has defined the terms "tuition fees" and "services and activities fees" in RCW 28B.15.020 and .041, respectively. The legislature has also authorized, albeit indirectly, a category of "other fees" that each IHE, at its discretion, may charge students. RCW 28B.15.031. These are the "institutionally mandated" fees that are excluded from the definition of "Tuition and Fees" in the Master Agreement. These fees are hereinafter referred to as "Special Fees" or "other fees".

1. **Tuition Fees.** The historical evolution of the term "tuition" is essential to fully understanding the current meaning of the term. Since the mid-1990s the tuition and fees statutes have been amended many times and have accreted a significant amount of language.<sup>2</sup> Historically, tuition was divided into a "general tuition fee" and "incidental fees." In 1971 the legislature replaced the "incidental fees" with "operating fees" and "services and activities fees."<sup>3</sup> In 1985, the Legislature re-labeled the "general tuition fee" as a "building fee" and redefined "tuition" as a combination of the building fee and the operating fee.<sup>4</sup> Consequently, when the terms, "tuition" or "tuition fees" are used, they refer to both of these components.

The term 'tuition fees' as used in this chapter shall mean the fees charged students registering at the state's colleges and universities which consist of:

<sup>2</sup> Because the tuition and fee statutes are now so long, we have included an appendix setting forth the relevant statutes in full, inclusive of amendments enacted in the 2012 legislative session.

<sup>3</sup> Laws of 1971, 1st Ex. Sess., ch. 279. *See also*, AGLO 1971, No. 93, which concluded that the purpose of the change was to allow the legislature to more accurately direct the allocation of college and university fees, other than general tuition, between (a) operational expenditures and (b) student activities expenditures.

<sup>4</sup> Laws of 1985, ch. 390, § 15.



## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 5

(1) The “building fees” as defined in RCW 28B.15.025; and

(2) The “operating fees” as defined in RCW 28B.15.031.

RCW 28B.15.020.

“Building Fees,” formerly the “general tuition fees,” currently and historically have been dedicated to supporting capital project purposes. Each state IHE currently remits the Building Fee to either local building accounts, bond retirement funds or the state treasury for purposes of bond retirement and capital projects.<sup>5</sup> RCW 28B.15.025. The Building Fee is fixed statutorily as a percentage of total tuition fees. RCW 28B.15.069. “Operating Fees” are statutorily defined as those fees charged all registered students that are neither Building Fees nor the variety of locally imposed “special” fees (described in subsection B.3 below) that state IHE are authorized to impose. RCW 28B.15.031.

While RCWs 28B.15.020, .025 and .031 establish what constitutes Tuition Fees, the valuation methodology to calculate the value of Tuition Fees is contained in RCWs 28B.15.067 and .100. That is, the definitions do not in and of themselves establish a dollar value. The determination of the value of the fee a student is required to pay for tuition in any given year is dependant on the valuation methodology and criteria set forth in RCWs 28B.15.067 and .100. These statutes are further discussed in subsection D below.

**2. Services and Activities Fees.** The other state mandated fee is the “services and activities” (S&A) Fee. S&A Fees are charged to all students for the express purpose of funding student activities and programs of their particular institution. RCW 28B.15.041. S&A Fees are set by the governing boards of the individual state IHE according to budgeting procedures that ensure student input. RCW 28B.15.044 and .045. The state IHE are authorized to increase S&A Fees annually by a percentage not to exceed the annual percentage increases for Tuition Fees. RCW 28B.15.069(2).

**3. Special Fees (Other Fees).** State IHE are also statutorily authorized to charge students, at their discretion, a variety of locally imposed other fees, which we also refer to as Special Fees. RCW 28B.15.100. The legislature indirectly authorized such Special Fees in RCW 28B.15.031 by distinguishing them from Operating Fees and providing an illustrative list, including:

[F]ees for short courses, self-supporting degree credit programs and courses, marine station work, experimental station work, correspondence or extension courses, and individual instruction and student deposits or rentals, disciplinary and library fines, which colleges and universities *shall have the right to impose*,

<sup>5</sup> There are other statutes prescribing which of these options applies to each institution.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 6

laboratory, gymnasium, health, technology and student activity fees . . . , or *such other special fees as may be established by any college or university board of trustees or regents from time to time. . . .* *Id.* (italics added).<sup>6</sup>

**D. Tuition Setting Authority.**

Tuition setting authority is set forth in RCW 28B.15.067. Prior to 1995, tuition was calculated as a percentage of the instructional costs.<sup>7</sup> By the time GET was enacted in 1997, and until the 2003-04 academic year, tuition was set directly in statute. Beginning in 2003-04, the legislature provided that any future increases (or reductions) in resident undergraduate tuition would be authorized through the omnibus appropriations act. Percentage increases were made initially from the baseline rate set in statute for the 2002-03 academic year. At that time, the legislature also granted IHE the autonomy to increase or decrease tuition for all students *other than resident undergraduates*, including the authority to increase or reduce tuition for “all or portions of an institution’s programs, campuses, courses, or students.” Laws of 2003, ch. 232 (ESSB 5448). In other words, for *other than* resident undergraduates, institutions were given authority to set differential tuition rates among programs, campuses, courses and students as early as 2003.<sup>8</sup>

In the 2011 session, the legislature made a number of important changes to the tuition setting authority. First, the community and technical college (CTC) system was separated from the four-year institutions. For the CTC system, tuition increases were to remain governed by the appropriations act. RCW 28B.15.067(2). Second, the legislature granted the State Board for Community and Technical Colleges authority to “pilot or institute *differential tuition* models.” *Id.* Third, the legislature gave four-year institutions authority and discretion to reduce or increase tuition for all students, including resident undergraduates, for a four year period (2011-

<sup>6</sup> The list of “other fees” actually dates back to 1961, originally enacted as part of former RCW 28.81.080. See Laws of 1961, Ex. Sess., ch. 13, § 3. In 1971, the legislature repealed and reenacted all of the tuition and fee statutes for colleges and universities. The provisions of former RCW 28.81.080 were dispersed into various sections of the reenacted code. The “other fees” language was moved to RCW 28B.15.031 at that time. Laws of 1971, 1st Ex. Sess., ch. 279, § 2. The only recent addition to the illustrative list is “technology.” In 1996, the legislature added “technology” to the preexisting list in RCW 28B.15.031 as part of the same bill that established the new section containing technology fee authority for four-year institutions, which is codified in RCW 28B.15.051.

<sup>7</sup> When enacted in 1981, RCW 28B.15.067 read as follows: “General tuition and operating fees shall be established and adjusted biennially under the provisions of this chapter beginning with the 1983-84 academic year. Such fees shall be identical, subject to other provisions of this chapter, for students enrolled at either state university, for students enrolled at the regional universities and The Evergreen State College and for students enrolled at any community college. The general tuition and operating fees *shall reflect the educational costs of the state universities, the regional universities and the community colleges, respectively, in the amounts herein prescribed.*” Laws of 1981, ch. 257, § 2 (emphasis added). See also, Final Bill Reports on Laws of 2003, ch. 231 (ESSB 5448); Laws of 1995, ch. 9 (ESSB 5325).

<sup>8</sup> In reality, differential rates among *students*, i.e., resident, nonresident, undergraduate and various graduate programs had been authorized and prescribed by the legislature even when it was setting tuition directly in statute. See Laws of 1997, ch. 403; Laws of 1995, ch. 9, § 5.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 7

12 through 2014-15).<sup>9</sup> For the following four academic years (2015-16 through 2018-19), the institutions may set tuition according to a prescribed formula.<sup>10</sup> Beginning in the 2019-20 academic year, authority reverts to the legislature to authorize increases in the appropriations act. RCW 28B.15.067(8).

And fourth, *differential tuition* for resident undergraduates was authorized by virtue of striking the modifying phrase “other than resident undergraduates” from the preexisting paragraph authorizing institutions to increase “all or portions of an institution’s programs, campuses, courses, or students.” RCW 28B.15.067(3)(a). Although not labeled as “differential tuition” as with the CTC authority, the effect is the same—the statute now confers on four-year institutions the authority to establish tuition increases for less than all programs or courses, including those for resident undergraduates. Because the GET Program indexes the unit payout value to resident undergraduate tuition rates, this change in the law gives rise to your questions.

In the 2012 session, the legislature amended RCW 28B.15.067 in the appropriations act to provide a temporary moratorium on the differential tuition authorities. Those authorities now read as follows for the CTCs and four-year institutions respectively,

Except during the 2011-2013 fiscal biennium, the state board for community and technical colleges may pilot or institute differential tuition models. The board may define scale, scope, and rationale for the models.

Reductions or increases may be made for all or portions of an institution’s programs, campuses, courses, or students; however, during the 2011-2013 fiscal biennium, reductions or increases in tuition must be uniform among resident undergraduate students.

Laws of 2012, ch. 7, § 914.

With the foregoing summary of the relevant authorities, we now turn to each of your questions.

## RESPONSE/ANALYSIS

1. **May the GET Committee take differential tuition into account in setting the unit payout value of a GET tuition unit where the GET Master Agreement incorporates IHE fee statutes that do not mention differential tuition? In other words, does the GET Master Agreement necessarily incorporate the concept of differential tuition?**

<sup>9</sup> RCW 28B.15.067 (3)(a).

<sup>10</sup> RCW 28B.15.067(4).

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 8

Yes. The clear reference to tuition in the GET Master Agreement necessarily includes the annual values of the fees, however they are established, as long as they are established legally. Principles of statutory construction require us to read statutory provisions relating to the same subject matter *in pari materia*, that is, in relation to each other so as to give each provision effect and to read each in harmony with the others. *State v. Houck*, 32 Wn.2d 681, 203 P.2d 693 (1949).

The Master Agreement sets the unit payout value at the highest resident undergraduate tuition and fees (HRUTF) at four-year state IHE per academic year. "Tuition and fees" is defined as the tuition fees described in RCW 28B.15.020 and the S&A fees described RCW 28B.15.041. The method for establishing tuition fees has been defined in RCW 28B.15.067 since well before GET was established. It is true that neither the Master Agreement, nor RCW 28B.15.020 expressly incorporate RCW 28B.15.067. But, the latter statute is integral to understanding the full scope of how tuition is defined. Moreover, one cannot calculate the HRUTF without taking into account the statutorily mandated methodology for establishing the fees. The Committee could not ignore RCW 28B.15.067 before the legislature authorized differential tuition and cannot do so now.

**2. If a four-year state IHE adopts a tuition fee for one program that results in the students in that program paying the highest resident undergraduate tuition and fees at a four-year state IHE, must that fee determine the GET unit payout value?**

Yes. The answer to this question is based on basic contract law. Without question, the Master Agreement is an enforceable contract that legally binds the state and the account owner to the terms therein. Since the inception of the Program, these contracts have included a state guarantee to pay the student beneficiary the "unit payout value" for each tuition unit purchased in the amount of "1 percent of the highest resident undergraduate Tuition and Fees at four-year State Institutions of Higher Education for the Academic Year at the time of distribution." The question to be determined is what the parties intended, at the time of execution of the contract, by phrase, "the highest resident undergraduate Tuition and Fees at four-year State Institutions of Higher Education for the Academic Year at the time of distribution."<sup>11</sup>

This legal analysis requires the consideration of numerous facts that currently are not before us and which are not likely to be easily ascertained given the multitude of Master Agreements entered into over the last 15 years. We understand that at the time GET was created, and until very recently, the charging of different tuitions to resident undergraduates based on the type of

<sup>11</sup> To ascertain the intent of contracting parties Washington courts apply the "context rule" of contract interpretation in ascertaining the parties' intent. This rule "allows a court, while viewing the contract as a whole, to consider extrinsic evidence, such as the circumstances leading to the execution of the contract, the subsequent conduct of the parties and the reasonableness of the parties' respective interpretations." *Shafer v. Bd. Of Trustees of Sandy Hook Yacht Club Estates, Inc.*, 76 Wn. App. 267, 275, 883 P.2d 1387 (1994) (citing *Berg v. Hudesman*, 115 Wn2d 675, 801 P.2d 222 (1990)).

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 9

program of study was not a legal option for the IHE. To the contrary, resident undergraduate tuition was by law required to be uniform.

Nonetheless, the plain language of the Master Agreement along with salient facts we have gleaned, tend to suggest that the parties' intended the formula to calculate a unit payout value that at the time of distribution would be sufficient to pay the tuition charged a resident student beneficiary by a four-year IHE for any undergraduate program. In addition to comporting with the contractual terms, this interpretation comports with the GET statute that delivers the promise to all account owners that their purchased tuition units "may be redeemed by the beneficiary at a future date for an equal number of tuition units regardless of any increase in the price of tuition, that may have occurred in the interval." RCW 28B.95.030(2)(a).<sup>12</sup>

**3. May an IHE pass on excess operating costs to students in the form of special fees without implicating the unit payout value in the GET Program?**

The Master Agreement specifically limits GET responsibility to tuition and S&A Fees and excludes the locally imposed Special Fees. As set forth in the preceding Background section, there are two separate statutes containing fairly broad discretionary authority for institutions to enact a variety of local Special Fees.<sup>13</sup> That said, we do not believe the authority is so broad as to allow IHE to charge de facto differential tuition through the enactment of Special Fees.

The precise scope of the Special Fee authority is not delineated in statute, but as we discussed previously, the tuition and fees statutes must be read in *pari material*. The legislature has intentionally distinguished Special Fees from S&A, Building, and Operating fees. Consequently, we believe a court would view the outer boundary of the Special Fee authority to lie at the point

---

<sup>12</sup> We have found it difficult to propose viable alternative interpretations that do not change the language in Master Agreement. For example, one could hypothesize some "baseline" rate that reflects tuition for non-premium programs. The problem with this approach is that IHE could theoretically charge a different rate for each and every program in which case there is no principle for setting the baseline. An easier calculation would be to set the unit payout value based on the highest average tuition rate. However, we do not see either approach as a legally viable option because they require changing the language of Master Agreement. Were the state to unilaterally change the terms of the Master Agreement for current account owners, it may give rise to breach of contract and/or unconstitutional impairment of contract claims. Current GET account owners have been guaranteed that each tuition unit purchased would cover future tuition and S&A fees. And, those choosing to redeem their tuition units at a non-state IHE would have an incentive to challenge any redefinition of the "highest residential undergraduate Tuition and Fees".

<sup>13</sup> RCW 28B.15.100 and .031.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 10

where it duplicates purposes of the tuition and S&A Fees.<sup>14</sup> The fact that the legislature specifically granted IHE authority to enact differential tuition leads us to conclude that differential tuition could not be legally accomplished through preexisting Special Fee-setting authority.

The Attorney General's Office has informally addressed the boundaries of Tuition, S & A, and Special Fee-setting authority several times over the years in response to specific questions. Immediately following the creation of S&A Fees and Operating Fees statutes, we were asked whether S & A revenues could be used to fund maintenance and operation costs of a college or university, including general administrative costs and instructional salaries. AGLO 1971, No. 93. At that time we concluded that such costs represented objects properly funded through revenues derived from Operating Fees. *Id.* In 1980 we opined that, considering the full statutory scheme together, the legislature likely intended that Special Fees would be charged, on a case-by-case user basis, to those students enrolled in the particular programs involved or desiring to use the specific facilities supported by the Special Fees.<sup>15</sup>

In 1985, Senator Nita Rinehart asked the AGO whether the Board of Regents at the University of Washington could charge students a fee for purposes of supplementing general operating or capital revenues. In an informal opinion written by then-Deputy Attorney General Christine Gregoire, we offered the following:

Reading RCW 28B.15.020, .031, .041 and § 12, chapter 390, Laws of 1985 [RCW 28B.15.100], in par[i] materia it is our considered opinion that the legislature has granted specific authority to the Board of Regents to establish, "other special fees" at their discretion without limiting the purposes for which such fees may be charged, *except that they are not to be charged for the same purposes as tuition fees and services and activities fees as those fees have been specifically defined and*

<sup>14</sup> In 2001, Superior Court Judge Robert Alsdorf considered an "energy surcharge fee" enacted by the University of Washington in response to an unexpected spike in energy costs. The fee was enacted under the special fee authority. The court noted that energy costs had historically been part of the operating budget, covered by state general funds and the operating fee portion of tuition. In addition, the fee was charged to all students. Consequently, the court viewed the fee as an "operating fee" clothed as a locally imposed special fee. Order Granting Partial Summary Judgment, King County Superior Court No. 01-2-22352-6-SEA. During an early argument over whether the court should issue an injunction against the fee being collected, the court identified the slippery slope whereby if an institution could pull out one item that had traditionally been covered by operating fees and convert it to a special fee, there would be no limit to what could be converted from tuition-covered to special fee covered.

<sup>15</sup> 1980 AGLO No. 029. At that time, we were asked whether community colleges had authority to charge all students a consolidated fee in lieu of all the individual special fees. We concluded that since the legislature had specifically authorized the two tuition components and S&A fees to be charged to *all* students, the colleges did not have authority to add another across-the-board fee. In 1996, the legislature authorized the four-year institutions to assess students an across-the-board "technology fee" based in part on this interpretation. RCW 28B.15.051; *See* Bill Reports for Laws of 1996, ch.142 (2SHB 2293).

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 11

*designated by statute.* To the extent that the "other fees" are used to create general operating or capital revenues for the normal maintenance and operation functions of the college such fees may not be charged . . . .

. . . The board of regents can, however, charge a fee to a specified group of students for a specified purpose other than contributing to a general operating or capital budget for any of the reasons enumerated in the exclusions from the definition of operating fees in RCW 28B.15.031 or for any additional reason that the Board in its discretion deems appropriate.

Letter to Rinehart, December 18, 1985. We believe the conclusions and reasoning in this letter remain sound. It is consistent with the other historical memoranda cited herein as well as the concerns expressed by Judge Alsdorf in 2001 as set forth in footnote 8 herein.

In sum, institutions have broad authority to enact local, Special Fees for various purposes. However, we do not interpret that authority to be so broad as to allow for imposition of a de facto local Operating Fee or Building Fee by simply characterizing it as a locally imposed Special Fee. Special Fees are most likely limited to fees of the same character as those listed in RCW 28B.15.031—user fees charged for non-tuition purposes. If differential tuition could be accomplished through the use of Special Fees, there would have been no need for the legislature to expressly authorize differential tuition.<sup>16</sup> Rather, a court would likely consider a Special Fee that supports traditional operating costs to be an unauthorized Operating Fee, which must be established consistent with the tuition-setting authority in statute.

This analysis represents the considered opinion of its authors and is not a formal Opinion of the Attorney General. We hope this is of assistance.

---

<sup>16</sup> Another rule of statutory construction holds that the legislature is presumed not to engage in superfluous acts.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 12

**APPENDIX—STATUTES****RCW 28B.15.025****“Building fees” defined—Use.**

The term “building fees” means the fees charged students registering at the state’s colleges and universities, which fees are to be used as follows: At the University of Washington, solely for the purposes provided in RCW 28B.15.210; at Washington State University, solely for the purposes provided in RCW 28B.15.310; at each of the regional universities and at The Evergreen State College, solely for the purposes provided in RCW 28B.35.370; and at the community colleges, for the purposes provided in RCW 28B.50.320, 28B.50.360 and 28B.50.370. The term “building fees” is a renaming of the “general tuition fee,” and shall not be construed to affect otherwise moneys pledged to, or used for bond retirement purposes.

**RCW 28B.15.031****“Operating fees”—Defined—Disposition.**

(1) The term “operating fees” as used in this chapter shall include the fees, other than building fees, charged all students registering at the state's colleges and universities but shall not include fees for short courses, self-supporting degree credit programs and courses, marine station work, experimental station work, correspondence or extension courses, and individual instruction and student deposits or rentals, disciplinary and library fines, which colleges and universities shall have the right to impose, laboratory, gymnasium, health, technology and student activity fees, or fees, charges, rentals, and other income derived from any or all revenue producing lands, buildings and facilities of the colleges or universities heretofore or hereafter acquired, constructed or installed, including but not limited to income from rooms, dormitories, dining rooms, hospitals, infirmaries, housing or student activity buildings, vehicular parking facilities, land, or the appurtenances thereon, or such other special fees as may be established by any college or university board of trustees or regents from time to time. All moneys received as operating fees at any institution of higher education shall be deposited in a local account containing only operating fees revenue and related interest: PROVIDED, That a minimum of five percent of operating fees shall be retained by the four-year institutions of higher education that increase tuition for resident undergraduate students above assumed tuition increases in the omnibus appropriations act, a minimum of four percent of operating fees shall be retained by four-year institutions of higher education that do not increase tuition for resident undergraduates above assumed increases in the omnibus appropriations act, and a minimum of three and one-half percent of operating fees shall be retained by the community and technical colleges for the purposes of RCW 28B.15.820. At least thirty percent of operating fees required to be retained by



## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 13

the four-year institutions for purposes of RCW 28B.15.820 shall be used only for the purposes of RCW 28B.15.820(10).

(2) In addition to the three and one-half percent of operating fees retained by the institutions under subsection (1) of this section, up to three percent of operating fees charged to students at community and technical colleges shall be transferred to the community and technical college innovation account for the implementation of the college board's strategic technology plan in RCW 28B.50.515. The percentage to be transferred to the community and technical college innovation account shall be determined by the college board each year but shall not exceed three percent of the operating fees collected each year.

(3) Local operating fee accounts shall not be subject to appropriation by the legislature but shall be subject to allotment procedures by budget program and fiscal year under chapter 43.88 RCW.

**RCW 28B.15.041****"Services and activities fees" defined.**

The term "services and activities fees" as used in this chapter is defined to mean fees, other than tuition fees, charged to all students registering at the state's community colleges, regional universities, The Evergreen State College, and state universities. Services and activities fees shall be used as otherwise provided by law or by rule or regulation of the board of trustees or regents of each of the state's community colleges, The Evergreen State College, the regional universities, or the state universities for the express purpose of funding student activities and programs of their particular institution. Student activity fees, student use fees, student building use fees, special student fees, or other similar fees charged to all full time students, or to all students, as the case may be, registering at the state's colleges or universities and pledged for the payment of bonds heretofore or hereafter issued for, or other indebtedness incurred to pay, all or part of the cost of acquiring, constructing or installing any lands, buildings, or facilities of the nature described in RCW 28B.10.300 as now or hereafter amended, shall be included within and deemed to be services and activities fees.

**RCW 28B.15.067****Tuition fees — Established.**

(1) Tuition fees shall be established under the provisions of this chapter.

(2) Beginning in the 2011-12 academic year, reductions or increases in full-time tuition fees shall be as provided in the omnibus appropriations act for resident undergraduate students at community and technical colleges. The governing boards of the state universities, regional universities, and The Evergreen State College; and the state board for community and technical colleges may reduce or increase full-time tuition fees for all students other than resident undergraduates, including nonresident students, summer school students, and students in other self-supporting degree programs. Percentage increases in full-time tuition may exceed the fiscal

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 14

growth factor. Except during the 2011-2013 fiscal biennium, the state board for community and technical colleges may pilot or institute differential tuition models. The board may define scale, scope, and rationale for the models.

(3)(a) Beginning with the 2011-12 academic year and through the end of the 2014-15 academic year, the governing boards of the state universities, the regional universities, and The Evergreen State College may reduce or increase full-time tuition fees for all students, including summer school students and students in other self-supporting degree programs. Percentage increases in full-time tuition fees may exceed the fiscal growth factor. Reductions or increases may be made for all or portions of an institution's programs, campuses, courses, or students; however, during the 2011-2013 fiscal biennium, reductions or increases in tuition must be uniform among resident undergraduate students.

(b) Prior to reducing or increasing tuition for each academic year, the governing boards of the state universities, the regional universities, and The Evergreen State College shall consult with existing student associations or organizations with student undergraduate and graduate representatives regarding the impacts of potential tuition increases. Each governing board shall make public its proposal for tuition and fee increases twenty-one days before the governing board of the institution considers adoption and allow opportunity for public comment. However, the requirement to make public a proposal for tuition and fee increases twenty-one days before the governing board considers adoption shall not apply if the omnibus appropriations act has not passed the legislature by May 15th. Governing boards shall be required to provide data regarding the percentage of students receiving financial aid, the sources of aid, and the percentage of total costs of attendance paid for by aid.

(c) Prior to reducing or increasing tuition for each academic year, the state board for community and technical college system shall consult with existing student associations or organizations with undergraduate student representation regarding the impacts of potential tuition increases. The state board for community and technical colleges shall provide data regarding the percentage of students receiving financial aid, the sources of aid, and the percentage of total costs of attendance paid for by aid.

(4) Beginning with the 2015-16 academic year through the 2018-19 academic year, the governing boards of the state universities, regional universities, and The Evergreen State College may set tuition for resident undergraduates as follows:

(a) If state funding for a college or university falls below the state funding provided in the operating budget for fiscal year 2011, the governing board may increase tuition up to the limits set in (d) of this subsection, reduce enrollments, or both;

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 15

(b) If state funding for a college or university is at least at the level of state funding provided in the operating budget for fiscal year 2011, the governing board may increase tuition up to the limits set in (d) of this subsection and shall continue to at least maintain the actual enrollment levels for fiscal year 2011 or increase enrollments as required in the omnibus appropriations act;

(c) If state funding is increased so that combined with resident undergraduate tuition the sixtieth percentile of the total per-student funding at similar public institutions of higher education in the global challenge states under RCW 28B.15.068 is exceeded, the governing board shall decrease tuition by the amount needed for the total per-student funding to be at the sixtieth percentile under RCW 28B.15.068; and

(d) The amount of tuition set by the governing board for an institution under this subsection (4) may not exceed the sixtieth percentile of the resident undergraduate tuition of similar public institutions of higher education in the global challenge states.

(5) The tuition fees established under this chapter shall not apply to high school students enrolling in participating institutions of higher education under RCW 28B.600.300 through 28B.600.400.

(6) The tuition fees established under this chapter shall not apply to eligible students enrolling in a dropout reengagement program through an interlocal agreement between a school district and a community or technical college under RCW 28A.175.100 through 28A.175.110.

(7) The tuition fees established under this chapter shall not apply to eligible students enrolling in a community or technical college participating in the pilot program under RCW 28B.50.534 for the purpose of obtaining a high school diploma.

(8) Beginning in the 2019-20 academic year, reductions or increases in full-time tuition fees for resident undergraduates at four-year institutions of higher education shall be as provided in the omnibus appropriations act.

(9) The legislative advisory committee to the committee on advanced tuition payment established in RCW 28B.95.170 shall:

(a) Review the impact of differential tuition rates on the funded status and future unit price of the Washington advanced college tuition payment program; and

(b) No later than January 14, 2013, make a recommendation to the appropriate policy and fiscal committees of the legislature regarding how differential tuition should be addressed in order to maintain the ongoing solvency of the Washington advanced college tuition payment program.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 16

\*(Underlined language added by 2012 supplemental budget, HB 2127)

**RCW 28B.15.069****Building fees — Services and activities fees — Other fees.**

- (1) The building fee for each academic year shall be a percentage of total tuition fees. This percentage shall be calculated by the office of financial management and be based on the actual percentage the building fee is of total tuition for each tuition category in the 1994-95 academic year, rounded up to the nearest half percent.
- (2) The governing boards of each institution of higher education, except for the technical colleges, shall charge to and collect from each student a services and activities fee. A governing board may increase the existing fee annually, consistent with budgeting procedures set forth in RCW 28B.15.045, by a percentage not to exceed the annual percentage increase in student tuition fees for resident undergraduate students: PROVIDED, That such percentage increase shall not apply to that portion of the services and activities fee previously committed to the repayment of bonded debt. These rate adjustments may exceed the fiscal growth factor. For the 2003-04 academic year, the services and activities fee shall be based upon the resident undergraduate services and activities fee in 2002-03. The services and activities fee committee provided for in RCW 28B.15.045 may initiate a request to the governing board for a fee increase.
- (3) Tuition and services and activities fees consistent with subsection (2) of this section shall be set by the state board for community and technical colleges for community college summer school students unless the community college charges fees in accordance with RCW 28B.15.515.
- (4) Subject to the limitations of RCW 28B.15.910, each governing board of a community college may charge such fees for ungraded courses, noncredit courses, community services courses, and self-supporting courses as it, in its discretion, may determine, consistent with the rules of the state board for community and technical colleges.
- (5) The governing board of a college offering an applied baccalaureate degree program under RCW 28B.50.810 may charge tuition fees for those courses above the associate degree level at rates consistent with rules adopted by the state board for community and technical colleges, not to exceed tuition fee rates at the regional universities.

**RCW 28B.15.100. Tuition and fees set by individual institutions — Limitations — Tuition and fees for certain part-time, additional time, and out-of-state students. (*Effective July 1, 2012.*)**

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 17

(1) The governing boards of the state universities, the regional universities, The Evergreen State College, and the community colleges shall charge to and collect from each of the students registering at the particular institution for any quarter or semester such tuition fees and services and activities fees, and other fees as such board shall in its discretion determine. For the governing boards of the state universities, the regional universities, and The Evergreen State College, the total of all fees shall be rounded to the nearest whole dollar amount: PROVIDED, That such tuition fees shall be established in accordance with RCW 28B.15.067.

(2) Part-time students shall be charged tuition and services and activities fees proportionate to full-time student rates established for residents and nonresidents: PROVIDED, That except for students registered at community colleges, students registered for fewer than two credit hours shall be charged tuition and services and activities fees at the rate established for two credit hours: PROVIDED FURTHER, That, subject to the limitations of RCW 28B.15.910, residents of Idaho or Oregon who are enrolled in community college district number twenty for six or fewer credits during any quarter or semester may be exempted from payment of all or a portion of the nonresident tuition fees differential upon a declaration by the office of student financial assistance that it finds Washington residents from the community college district are afforded substantially equivalent treatment by such other states.

(3) Full-time students registered for more than eighteen credit hours shall be charged an additional operating fee for each credit hour in excess of eighteen hours at the applicable established per credit hour tuition fee rate for part-time students: PROVIDED, That, subject to the limitations of RCW 28B.15.910, the governing boards of the state universities and the community colleges may exempt all or a portion of the additional charge, for students who are registered exclusively in first professional programs in medicine, dental medicine, veterinary medicine, doctor of pharmacy, or law, or who are registered exclusively in required courses in vocational preparatory programs.

**RCW 28B.95.020. Definitions.** (*Effective July 1, 2012.*)

The definitions in this section apply throughout this chapter, unless the context clearly requires otherwise.

(1) "Academic year" means the regular nine-month, three-quarter, or two-semester period annually occurring between August 1st and July 31st.

(2) "Account" means the Washington advanced college tuition payment program account established for the deposit of all money received by the office from eligible purchasers and interest earnings on investments of funds in the account, as well as for all expenditures on behalf of eligible beneficiaries for the redemption of tuition units and for the development of any authorized college savings program pursuant to RCW 28B.95.150.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 18

- (3) "Committee on advanced tuition payment" or "committee" means a committee of the following members: The state treasurer, the director of the office of financial management, the director of the office, or their designees, and two members to be appointed by the governor, one representing program participants and one private business representative with marketing, public relations, or financial expertise.
- (4) "Contractual obligation" means a legally binding contract of the state with the purchaser and the beneficiary establishing that purchases of tuition units will be worth the same number of tuition units at the time of redemption as they were worth at the time of the purchase.
- (5) "Eligible beneficiary" means the person for whom the tuition unit will be redeemed for attendance at an institution of higher education. The beneficiary is that person named by the purchaser at the time that a tuition unit contract is accepted by the governing body. Qualified organizations, as allowed under section 529 of the federal internal revenue code, purchasing tuition unit contracts as future scholarships need not designate a beneficiary at the time of purchase.
- (6) "Eligible purchaser" means an individual or organization that has entered into a tuition unit contract with the governing body for the purchase of tuition units for an eligible beneficiary. The state of Washington may be an eligible purchaser for purposes of purchasing tuition units to be held for granting Washington college bound scholarships.
- (7) "Full-time tuition charges" means resident tuition charges at a state institution of higher education for enrollments between ten credits and eighteen credit hours per academic term.
- (8) "Governing body" means the committee empowered by the legislature to administer the Washington advanced college tuition payment program.
- (9) "Institution of higher education" means an institution that offers education beyond the secondary level and is recognized by the internal revenue service under chapter 529 of the internal revenue code.
- (10) "Investment board" means the state investment board as defined in chapter 43.33A RCW.
- (11) "Office" means the office of student financial assistance as defined in chapter 28B.76 RCW.
- (12) "State institution of higher education" means institutions of higher education as defined in RCW 28B.10.016.
- (13) "Tuition and fees" means undergraduate tuition and services and activities fees as defined in RCW 28B.15.020 and 28B.15.041 rounded to the nearest whole dollar. For purposes of this

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 19

chapter, services and activities fees do not include fees charged for the payment of bonds heretofore or hereafter issued for, or other indebtedness incurred to pay, all or part of the cost of acquiring, constructing, or installing any lands, buildings, or facilities.

(14) "Tuition unit contract" means a contract between an eligible purchaser and the governing body, or a successor agency appointed for administration of this chapter, for the purchase of tuition units for a specified beneficiary that may be redeemed at a later date for an equal number of tuition units.

(15) "Unit purchase price" means the minimum cost to purchase one tuition unit for an eligible beneficiary. Generally, the minimum purchase price is one percent of the undergraduate tuition and fees for the current year, rounded to the nearest whole dollar, adjusted for the costs of administration and adjusted to ensure the actuarial soundness of the account. The analysis for price setting shall also include, but not be limited to consideration of past and projected patterns of tuition increases, program liability, past and projected investment returns, and the need for a prudent stabilization reserve.

**RCW 28B.95.030. Administration of program — Tuition units — Promotion of program — Authority of governing body. (*Effective July 1, 2012.*)**

(1) The Washington advanced college tuition payment program shall be administered by the committee on advanced tuition payment which shall be chaired by the director of the office. The committee shall be supported by staff of the office.

(2)(a) The Washington advanced college tuition payment program shall consist of the sale of tuition units, which may be redeemed by the beneficiary at a future date for an equal number of tuition units regardless of any increase in the price of tuition, that may have occurred in the interval.

(b) Each purchase shall be worth a specific number of or fraction of tuition units at each state institution of higher education as determined by the governing body.

(c) The number of tuition units necessary to pay for a full year's, full-time undergraduate tuition and fee charges at a state institution of higher education shall be set by the governing body at the time a purchaser enters into a tuition unit contract.

(d) The governing body may limit the number of tuition units purchased by any one purchaser or on behalf of any one beneficiary, however, no limit may be imposed that is less than that necessary to achieve four years of full-time, undergraduate tuition charges at a state institution of higher education. The governing body also may, at its discretion, limit the number of participants, if needed, to ensure the actuarial soundness and integrity of the program.

## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 20

(e) While the Washington advanced college tuition payment program is designed to help all citizens of the state of Washington, the governing body may determine residency requirements for eligible purchasers and eligible beneficiaries to ensure the actuarial soundness and integrity of the program.

(3)(a) No tuition unit may be redeemed until two years after the purchase of the unit. Units may be redeemed for enrollment at any institution of higher education that is recognized by the internal revenue service under chapter 529 of the internal revenue code.

(b) Units redeemed at a nonstate institution of higher education or for graduate enrollment shall be redeemed at the rate for state public institutions in effect at the time of redemption.

(4) The governing body shall determine the conditions under which the tuition benefit may be transferred to another family member. In permitting such transfers, the governing body may not allow the tuition benefit to be bought, sold, bartered, or otherwise exchanged for goods and services by either the beneficiary or the purchaser.

(5) The governing body shall administer the Washington advanced college tuition payment program in a manner reasonably designed to be actuarially sound, such that the assets of the trust will be sufficient to defray the obligations of the trust including the costs of administration. The governing body may, at its discretion, discount the minimum purchase price for certain kinds of purchases such as those from families with young children, as long as the actuarial soundness of the account is not jeopardized.

(6) The governing body shall annually determine current value of a tuition unit.

(7) The governing body shall promote, advertise, and publicize the Washington advanced college tuition payment program.

(8) In addition to any other powers conferred by this chapter, the governing body may:

(a) Impose reasonable limits on the number of tuition units or units that may be used in any one year;

(b) Determine and set any time limits, if necessary, for the use of benefits under this chapter;

(c) Impose and collect administrative fees and charges in connection with any transaction under this chapter;



## ATTORNEY GENERAL OF WASHINGTON

August 6, 2012

Page 21

(d) Appoint and use advisory committees and the state actuary as needed to provide program direction and guidance;

(e) Formulate and adopt all other policies and rules necessary for the efficient administration of the program;

(f) Consider the addition of an advanced payment program for room and board contracts and also consider a college savings program;

(g) Purchase insurance from insurers licensed to do business in the state, to provide for coverage against any loss in connection with the account's property, assets, or activities or to further insure the value of the tuition units;

(h) Make, execute, and deliver contracts, conveyances, and other instruments necessary to the exercise and discharge of its powers and duties under this chapter;

(i) Contract for the provision for all or part of the services necessary for the management and operation of the program with other state or nonstate entities authorized to do business in the state;

(j) Contract for other services or for goods needed by the governing body in the conduct of its business under this chapter;

(k) Contract with financial consultants, actuaries, auditors, and other consultants as necessary to carry out its responsibilities under this chapter;

(l) Solicit and accept cash donations and grants from any person, governmental agency, private business, or organization; and

(m) Perform all acts necessary and proper to carry out the duties and responsibilities of this program under this chapter.





## Office of the State Actuary

*"Securing tomorrow's pensions today."*

September 28, 2012

Senator Rodney Tom  
Chair  
GET Legislative Advisory Committee  
PO Box 40448  
Olympia, WA 98504-0448

### **RE: ACTUARIAL ANALYSIS OF DIFFERENTIAL TUITION – OPTION A\***

At your request, we performed preliminary actuarial analysis on the potential impacts on the Guaranteed Education Tuition (GET) program from "differential tuition." We understand that no state institution of higher education is currently allowed to charge differential tuition, but may adopt such policies next fall if the suspension under current law ends.

Our most recent analysis of GET excluded the impact of differential tuition. The current GET unit price of \$172 also does not include a premium for differential tuition.

The purpose of this analysis is to demonstrate the potential impacts to GET from differential tuition under the following two scenarios occurring in the fall of 2013.

- ❖ A one-time increase to the GET payout value of 5 percent.
- ❖ A one-time increase to the GET payout value of 10 percent.

For your reference, we also updated previous analysis where we demonstrated the potential impacts to GET from differential tuition under one-time increases to the GET payout value of 20 and 50 percent.

The results of our analysis are highly sensitive to assumed future purchaser behavior and future tuition growth. We did not have sufficient time to complete a comprehensive review of how differential tuition policies may affect our current assumptions. For these reasons, this analysis demonstrates potential impacts under four defined scenarios only and does not represent our best-estimate analysis.

*\* For purposes of this analysis, differential tuition refers to a tuition-setting policy where rates of resident, undergraduate tuition vary by an institution's programs, campuses, courses, or students.*



Summary of Results			
	Without Differential Tuition	With Differential Tuition 5% Increase	With Differential Tuition 10% Increase
<i>(Dollars in Millions – Except for GET Unit Price)</i>			
Current GET Unit Price	\$172	\$186	\$201
Unfunded Liability	\$631	\$770	\$910
Chance of State Contribution over 50 years	1.0%	2.6%	4.7%
Worst Case 50-Year State Contributions	\$1,852	Over \$2,000	Over \$2,500
Chance of Purchaser Experiencing Negative Return	3.0%	6.6%	11.6%
Chance of Average Annual Sales Below 750,000 Units	18.3%	Over 20%	Over 25%
Average Expected Annual Units Sold (Next 20 Years)	936,803	858,588	781,655

Summary of Results			
	Without Differential Tuition	With Differential Tuition 20% Increase	With Differential Tuition 50% Increase
<i>(Dollars in Millions – Except for GET Unit Price)</i>			
Current GET Unit Price	\$172	\$248	\$486
Unfunded Liability	\$631	\$1,189	\$2,026
Chance of State Contribution over 50 years	1.0%	Over 20%	Over 40%
Worst Case 50-Year State Contributions	\$1,852	Over \$4,000	Over \$5,000
Chance of Purchaser Experiencing Negative Return	3.0%	30.0%	95.2%
Chance of Average Annual Sales Below 750,000 Units	18.3%	Over 50%	Over 75%
Average Expected Annual Units Sold (Next 20 Years)	936,803	499,878	233,741

Please see the rest of this letter for further details and supporting information.

### **Impact On GET Program Status**

When we update the current status of the GET program to apply the one-time increases defined above, the expected cost of every unredeemed GET unit that has already been sold immediately increases. However, the assets collected from past purchasers, plus the associated investment returns, remain unchanged.

The following tables display the impacts on GET's current liability, assets, unfunded liability, and funded status from the scenarios defined above.



Impact on GET Program Status*			
(Dollars in Millions)	Without Differential Tuition	With Differential Tuition 5% Increase	With Differential Tuition 10% Increase
Present Value of all GET Contracts	\$2,942	\$3,081	\$3,221
Market Value of Assets	2,311	2,311	2,311
Unfunded Liability	\$631	\$770	\$910
Funded Status	79%	75%	72%

\*At June 30, 2012.

Impact on GET Program Status*			
(Dollars in Millions)	Without Differential Tuition	With Differential Tuition 20% Increase	With Differential Tuition 50% Increase
Present Value of all GET Contracts	\$2,942	\$3,500	\$4,337
Market Value of Assets	2,311	2,311	2,311
Unfunded Liability	\$631	\$1,189	\$2,026
Funded Status	79%	66%	53%

\*At June 30, 2012.

### Current GET Price-Setting Guidelines

The GET Committee adopts price-setting guidelines (how we price future units) to manage the risks of the program. The current GET unit price includes the following four components:

- ❖ **Expected Cost** – Covers the expected cost of future tuition and certain administrative expenses.
- ❖ **Expenses** – Covers the GET program's annual operating expenses.
- ❖ **Reserve** – Covers unexpected future costs such as above-expected tuition growth or below-expected investment returns. The current price-setting guidelines call for a 15 percent reserve. This component can be increased or decreased to alter the probability that a unit will ever create unfunded liability in the future.
- ❖ **Amortization** – An optional component that covers unexpected past costs from significant program or policy changes. In 2011, the committee established a one-time 30-year amortization of the



unfunded liability measured at June 30, 2011. It is important to collect amortization payments for the entire planned period. Ending the amortization sooner could effectively result in the use of reserve dollars (dedicated for future unexpected costs) for past unexpected losses.

### Impact On GET Unit Price

When we update the current status of the GET program to apply the one-time differential tuition increases defined above and apply the current price-setting guidelines, we observe the following changes to the GET unit price.

Impact on GET Unit Price			
Category	Without Differential Tuition	With Differential Tuition 5% Increase	With Differential Tuition 10% Increase
<b>Unit Price</b>			
Expected Cost	\$127.66	\$134.06	\$140.44
Expenses	5.33	5.74	6.39
Reserve	19.95	20.97	22.03
Amortization	19.73	25.77	32.99
<b>Total Unit Price</b>	<b>\$172.00</b>	<b>\$186.00</b>	<b>\$201.00</b>

*Note: Total unit price rounded down.*

Impact on GET Unit Price			
Category	Without Differential Tuition	With Differential Tuition 20% Increase	With Differential Tuition 50% Increase
<b>Unit Price</b>			
Expected Cost	\$127.66	\$153.21	\$191.51
Expenses	5.33	9.98	21.53
Reserve	19.95	24.48	31.96
Amortization	19.73	61.09	241.33
<b>Total Unit Price</b>	<b>\$172.00</b>	<b>\$248.00</b>	<b>\$486.00</b>

*Note: Total unit price rounded down.*

The expenses and amortization components both increase by more than the percent increases in the defined scenarios because both components are collected over assumed future purchases. As the price premium increases (total unit price ÷ unit value of \$117.82), we expect fewer future purchases. Therefore, the price of the expense and amortization components must increase to collect the same total dollars over fewer assumed future



purchases. The amortization component also increases by the percent increase in unfunded liability displayed earlier under Impact on GET Program Status

### **Impact On Program Risk**

The program's future success depends on maintaining a delicate balance between risk and affordability. In this case, "risk" represents the risk of the state needing to make a contribution to the program and "affordability" represents the affordability of future GET units. Improving one risk will typically increase the risk of the other.

The following tables summarize how key risk metrics change under the defined scenarios.

Key Risk Metrics			
Risk Category	Without Differential Tuition	With Differential Tuition 5% Increase	With Differential Tuition 10% Increase
Chance of State Contribution over 50 years	1.0%	2.6%	4.7%
Worst Case 50-Year State Contributions ( <i>Dollars in Millions</i> )	\$1,852	Over \$2,000	Over \$2,500
Chance of Funded Status Under 50% over 50 years	21.7%	26.3%	32.3%
Chance of Purchaser Experiencing Negative Return	3.0%	6.6%	11.6%
Chance of Average Annual Sales Below 750,000 Units	18.3%	Over 20%	Over 25%
Average Expected Annual Units Sold (Next 20 Years)	936,803	858,588	781,655

Key Risk Metrics			
Risk Category	Without Differential Tuition	With Differential Tuition 20% Increase	With Differential Tuition 50% Increase
Chance of State Contribution over 50 years	1.0%	Over 20%	Over 40%
Worst Case 50-Year State Contributions ( <i>Dollars in Millions</i> )	\$1,852	Over \$4,000	Over \$5,000
Chance of Funded Status Under 50% over 50 years	21.7%	52.1%	81.5%
Chance of Purchaser Experiencing Negative Return	3.0%	30.0%	95.2%
Chance of Average Annual Sales Below 750,000 Units	18.3%	Over 50%	Over 75%
Average Expected Annual Units Sold (Next 20 Years)	936,803	499,878	233,741

When we apply the current price-setting guidelines, we expect the one-time increases under the defined scenarios will reduce future unit sales by about 10, 20, 50, and 75 percent respectively. With lower future sales, the GET program collects fewer future dollars to protect against future adverse experience and to recover from past losses. As a result, the risks to the program increase. We observed increases in both the chance and amount of state contributions to the program over the next 50 years.



From the purchaser's perspective, the increase in the current 30-year amortization component of the GET unit price increases the chance a future purchaser will experience a negative rate of return on their GET investment – from 3 percent without differential tuition to about 7, 12, 30, and 95 percent respectively.

### **Actuarial Certification**

We prepared this preliminary analysis to assist the Legislature in evaluating the potential impacts of differential tuition on the GET program under four defined scenarios. Please do not use this analysis for other purposes.

This analysis involves calculations that require assumptions about future economic and demographic events. Actuarial Standards of Practice (ASOP) for prepaid tuition programs have not been defined within the actuarial profession. We used the ASOPs for pensions where possible to guide our analysis of GET. We believe that the assumptions, methods, and calculations used in this analysis are reasonable and appropriate for the primary purpose as stated above, and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this letter. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results.

Since the analysis is based on assumptions about future events, actual results will differ to the extent that future experience differs from those assumptions. Significant differences between the actual and assumed future enrollments will impact the results. This analysis will need to be updated in the future if the Legislature enacts either major reform to current tuition policy or other changes to GET.

The GET Program staff provided the participant, asset, and historical data to us. The Washington State Investment Board (WSIB) also provided recent asset data to us. We checked the data for reasonableness as appropriate based on the purpose of this analysis. An audit of the data was not performed. We relied on all the information provided as complete and accurate. In our opinion, this information is adequate and substantially complete for the purposes of this analysis.

We advise readers of this analysis to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this communication as a whole. Distribution of, or reliance on, only parts of this analysis could result in its misuse and may mislead others.

The analysis in this letter will become outdated very quickly. Please replace this analysis with any future actuarial analysis.

Consistent with the actuarial Code of Professional Conduct, I (Matthew Smith) must disclose any potential conflict of interest. I have purchased units in GET; however, this





does not impair my ability to act fairly. I have performed all analysis without bias or influence. The GET Committee contracted with OSA to perform actuarial analysis for the GET Legislative Advisory Committee, and I supervised the actuarial analysis performed.

The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein and are available to provide extra guidance and explanations as needed.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA  
State Actuary

Troy Dempsey, ASA, EA, MAAA  
Actuary

cc: Betty Lochner, Director  
Guaranteed Education Tuition  
Larry Lee, Deputy Director  
Guaranteed Education Tuition



## **Appendix – Data, Assumptions and Methods**

### ***Data We Used***

The data and assets we used are consistent with the data and assets disclosed in the *June 30, 2012, GET Actuarial Valuation Report (GAVR)*.

### ***Assumptions We Made***

Most of the assumptions we made are consistent with the assumptions disclosed in the GAVR. We made the following assumption changes to complete this analysis:

We assumed the GET Committee would follow their current price-setting guidelines over the 50-year projection period. The guidelines (“current guidelines”) require a 15 percent reserve. The guidelines also include a one-time, closed 30-year amortization to address the unfunded liability created by the new tuition-setting policy established in the 2011 Session.

We further assumed the GET Committee would respond to the presence of differential tuition by changing the current price of a GET unit.

We increased the 2013 tuition growth rate of 12 percent by 500, 1,000, 2,000, or 5,000 basis points to reflect the assumed one-time increase in GET payout value defined by the given differential tuition scenario.

### ***Methods We Used (How We Applied The Assumptions)***

Nearly all of the methods we used are consistent with the methods disclosed in the GAVR. We made the following method change to complete this analysis:

We added the increased unfunded liability due to differential tuition to the amortization already in place to address the existing unfunded liability measured at June 30, 2011.

*O:\GET\GET Advisory Committee\Differential\_Tuition\_Analysis\_Option A.docx*



## Office of the State Actuary

*"Securing tomorrow's pensions today."*

September 28, 2012

Senator Rodney Tom  
Chair  
GET Legislative Advisory Committee  
PO Box 40448  
Olympia, WA 98504-0448

### **RE: ACTUARIAL ANALYSIS OF DIFFERENTIAL TUITION – OPTION B\***

At your request, we performed preliminary actuarial analysis on the potential impacts on the Guaranteed Education Tuition (GET) program from "differential tuition." We understand that no state institution of higher education is currently allowed to charge differential tuition, but may adopt such policies next fall if the suspension under current law ends.

Our most recent analysis of GET excluded the impact of differential tuition. The current GET unit price of \$172 also does not include a premium for differential tuition.

The purpose of this analysis is to demonstrate the potential impacts to GET from differential tuition under the same scenarios outlined in Option A (provided in a separate letter) with the following modification.

- ❖ Exempt charges above base tuition at Washington State public colleges and universities for all GET participants.

For example, if base tuition were \$10,000 and differential tuition were \$1,000, under this option all GET participants would receive \$11,000 in GET unit value (for 100 units), but the GET program would only pay out \$10,000 for GET participants attending in-state public schools (with the institution absorbing the cost of the \$1,000 in differential tuition). If 75 percent of all GET units are used at in-state public schools, then that would mean the GET program would only pay the \$11,000 for 25 percent of all units.

The results of our analysis are highly sensitive to assumed future purchaser behavior and future tuition growth. We did not have sufficient time to complete a comprehensive review of how differential tuition policies may affect our current assumptions. For these reasons, this analysis demonstrates potential impacts under four defined scenarios only and does not represent our best-estimate analysis.

*\* For purposes of this analysis, differential tuition refers to a tuition-setting policy where rates of resident, undergraduate tuition vary by an institution's programs, campuses, courses, or students.*



### Summary of Results\*

(Dollars in Millions - Except GET Unit Price)	Without Differential Tuition	With Differential Tuition 5% Increase	With Differential Tuition 10% Increase
Current GET Unit Price	\$172	\$175	\$178
Unfunded Liability	\$631	\$667	\$704

*\*Estimate at June 30, 2012. Please see the Appendix for more information on how we estimated the impacts.*

### Summary of Results\*

(Dollars in Millions - Except GET Unit Price)	Without Differential Tuition	With Differential Tuition 20% Increase	With Differential Tuition 50% Increase
Current GET Unit Price	\$172	\$186	\$211
Unfunded Liability	\$631	\$778	\$999

*\*Estimate at June 30, 2012. Please see the Appendix for more information on how we estimated the impacts.*

Please see the rest of this letter for further details and supporting information.

### Impact On GET Program Status

When we update the current status of the GET program to apply the one-time increases defined above, the expected cost of every unredeemed GET unit that has already been sold immediately increases (for the assumed 25 percent of GET units impacted). However, the assets collected from past purchasers, plus the associated investment returns, remain unchanged.

The following table displays the estimated impacts on GET's current liability, assets, unfunded liability, and funded status from the scenarios defined above (for the assumed 25 percent of GET units impacted).

### Impact on GET Program Status\*

(Dollars in Millions)	Without Differential Tuition	With Differential Tuition 5% Increase	With Differential Tuition 10% Increase
Present Value of all GET Contracts	\$2,942	\$2,978	\$3,015
Market Value of Assets	2,311	2,311	2,311
Unfunded Liability	\$631	\$667	\$704
Funded Status	79%	78%	77%

*\*Estimate at June 30, 2012. Please see the Appendix for more information on how we estimated the impacts.*



Impact on GET Program Status*			
(Dollars in Millions)	Without Differential Tuition	With Differential Tuition 20% Increase	With Differential Tuition 50% Increase
Present Value of all GET Contracts	\$2,942	\$3,089	\$3,310
Market Value of Assets	2,311	2,311	2,311
Unfunded Liability	\$631	\$778	\$999
Funded Status	79%	75%	70%

\*Estimate at June 30, 2012. Please see the Appendix for more information on how we estimated the impacts.

### Current GET Price-Setting Guidelines

The GET Committee adopts price-setting guidelines (how we price future units) to manage the risks of the program. The current GET unit price includes the following four components:

- ❖ **Expected Cost** – Covers the expected cost of future tuition and certain administrative expenses.
- ❖ **Expenses** – Covers the GET program's annual operating expenses.
- ❖ **Reserve** – Covers unexpected future costs such as above-expected tuition growth or below-expected investment returns. The current price-setting guidelines call for a 15 percent reserve. This component can be increased or decreased to alter the probability that a unit will ever create unfunded liability in the future.
- ❖ **Amortization** – An optional component that covers unexpected past costs from significant program or policy changes. In 2011, the committee established a one-time 30-year amortization of the unfunded liability measured at June 30, 2011. It is important to collect amortization payments for the entire planned period. Ending the amortization sooner could effectively result in the use of reserve dollars (dedicated for future unexpected costs) for past unexpected losses.

### Impact On GET Unit Price

When we update the current status of the GET program to apply the one-time differential tuition increases defined above (for the assumed 25 percent of GET units impacted) and apply the current price-setting guidelines, we observe the following changes to the GET unit price.



Impact on GET Unit Price*			
Category	Without Differential Tuition	With Differential Tuition 5% Increase	With Differential Tuition 10% Increase
<b>Unit Price</b>			
Expected Cost	\$127.66	\$129.26	\$130.85
Expenses	5.33	5.42	5.55
Reserve	19.95	20.20	20.45
Amortization	19.73	21.12	22.08
<b>Total Unit Price</b>	<b>\$172.00</b>	<b>\$175.00</b>	<b>\$178.00</b>

*Note: Total unit price rounded down.*

*\*Estimate at June 30, 2012. Please see the Appendix for more information on how we estimated the impacts.*

Impact on GET Unit Price*			
Category	Without Differential Tuition	With Differential Tuition 20% Increase	With Differential Tuition 50% Increase
<b>Unit Price</b>			
Expected Cost	\$127.66	\$134.04	\$143.62
Expenses	5.33	6.02	6.55
Reserve	19.95	20.95	22.44
Amortization	19.73	25.77	38.66
<b>Total Unit Price</b>	<b>\$172.00</b>	<b>\$186.00</b>	<b>\$211.00</b>

*Note: Total unit price rounded down.*

*\*Estimate at June 30, 2012. Please see the Appendix for more information on how we estimated the impacts.*

The expenses and amortization components both increase by less than the percent increases in the defined scenarios because the increases apply to only the assumed 25 percent of GET units impacted. However, these components increase by more than 25 percent of the increases in the defined scenarios. This occurs because both components are collected over assumed future purchases. As the price premium increases (total unit price ÷ unit value of \$117.82), we expect fewer future purchases. Therefore, the price of the expense and amortization components must increase to collect the same total dollars over fewer assumed future purchases. The amortization component also increases by the percent increase in unfunded liability displayed earlier under Impact On GET Program Status.

### **Impact On Program Risk**

We did not have sufficient time and available resources to analyze the impacts to the program's risks at this preliminary stage in the analysis. The impacts on program risk



under this option would vary from the impacts identified under Option A. Should the Committee decide to pursue this option further, we suggest additional actuarial analysis to separately identify the risk impacts under this option.

### **Actuarial Certification**

We prepared this preliminary analysis to assist the Legislature in evaluating the potential impacts of differential tuition on the GET program under four defined scenarios. Please do not use this analysis for other purposes.

This analysis involves calculations that require assumptions about future economic and demographic events. Actuarial Standards of Practice (ASOP) for prepaid tuition programs have not been defined within the actuarial profession. We used the ASOPs for pensions where possible to guide our analysis of GET. We believe that the assumptions, methods, and calculations used in this analysis are reasonable and appropriate for the primary purpose as stated above, and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this letter. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results.

Since the analysis is based on assumptions about future events, actual results will differ to the extent that future experience differs from those assumptions. Significant differences between the actual and assumed future enrollments will impact the results. This analysis will need to be updated in the future if the Legislature enacts either major reform to current tuition policy or other changes to GET.

The GET Program staff provided the participant, asset, and historical data to us. The Washington State Investment Board (WSIB) also provided recent asset data to us. We checked the data for reasonableness as appropriate based on the purpose of this analysis. An audit of the data was not performed. We relied on all the information provided as complete and accurate. In our opinion, this information is adequate and substantially complete for the purposes of this analysis.

We advise readers of this analysis to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this communication as a whole. Distribution of, or reliance on, only parts of this analysis could result in its misuse and may mislead others.

The analysis in this letter will become outdated very quickly. Please replace this analysis with any future actuarial analysis.

Consistent with the actuarial Code of Professional Conduct, I (Matthew Smith) must disclose any potential conflict of interest. I have purchased units in GET; however, this does not impair my ability to act fairly. I have performed all analysis without bias or influence. The GET Committee contracted with OSA to perform actuarial analysis for the GET Legislative Advisory Committee, and I supervised the actuarial analysis performed.





The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein and are available to provide extra guidance and explanations as needed.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA  
State Actuary

Troy Dempsey, ASA, EA, MAAA  
Actuary

cc: Betty Lochner, Director  
Guaranteed Education Tuition  
Larry Lee, Deputy Director  
Guaranteed Education Tuition





## Appendix – Data, Assumptions and Methods

### **Data We Used**

We relied on data provided from GET staff to develop an assumption about how many GET units would be redeemed at Washington State public colleges and universities. An audit of the data was not performed. We relied on the data provided as complete and accurate. In our opinion, this data is reasonable for the purposes of this preliminary analysis. The following table shows the data collected.

GET Units Redeemed by Year and Institution Type				
School Year	2009-10	2010-11	2011-12	Total
Institution				
University of Washington	3,710	3,981	4,521	12,212
Washington State University	1,323	1,521	1,817	4,661
Western Washington University	1,837	2,218	2,646	6,701
Central Washington University	641	815	954	2,410
Eastern Washington University	329	399	511	1,239
The Evergreen State College	243	293	313	849
Community and Technical Colleges	1,844	1,920	2,484	6,248
Out-of-State Colleges and Universities	1,690	2,309	2,385	6,384
Private Colleges and Universities	833	1,020	1,208	3,061
<b>Public Washington Institutions</b>	<b>9,927</b>	<b>11,147</b>	<b>13,246</b>	<b>34,320</b>
<b>All Institutions</b>	<b>12,450</b>	<b>14,476</b>	<b>16,839</b>	<b>43,765</b>
<b>Redeemed at Public Washington Institutions</b>	<b>80%</b>	<b>77%</b>	<b>79%</b>	<b>78%</b>

Otherwise, the data and assets we used are consistent with the data and assets disclosed in the *June 30, 2012, GET Actuarial Valuation Report (GAVR)*.

### **Assumptions We Made**

After analyzing data collected from GET staff, we assume that 75 percent of GET units will be redeemed at Washington State public colleges and universities.

For purposes of this preliminary pricing, we assumed that Washington State public colleges and universities include all public community and technical colleges. If community and technical colleges were excluded, the 75 percent assumption would be lower and the cost of this proposal, in terms of present value of all GET contracts, would be higher.

We assumed the GET Committee would follow their current price-setting guidelines over the 50-year projection period. The guidelines (“current guidelines”) require a 15 percent reserve. The guidelines also include a one-time, closed 30-year amortization to address the unfunded liability created by the new tuition-setting policy established in the 2011 Session.

We further assumed the GET Committee would respond to the presence of differential tuition by changing the current price of a GET unit.



We increased the 2013 tuition growth rate of 12 percent by 125, 250, 500, or 1,250 basis points to reflect the assumed one-time increase in GET payout value defined by the given differential tuition scenario. These increases are equivalent to those used in Option A, except they show the assumed 75 percent offset for this proposal.

Otherwise, the assumption we made are consistent with the assumptions disclosed in the GAVR.

### **Methods We Used (How We Applied The Assumptions)**

To estimate the change in liabilities for each given scenario, we changed the 2013 tuition growth rates as described above and calculated a new present value of all GET contracts.

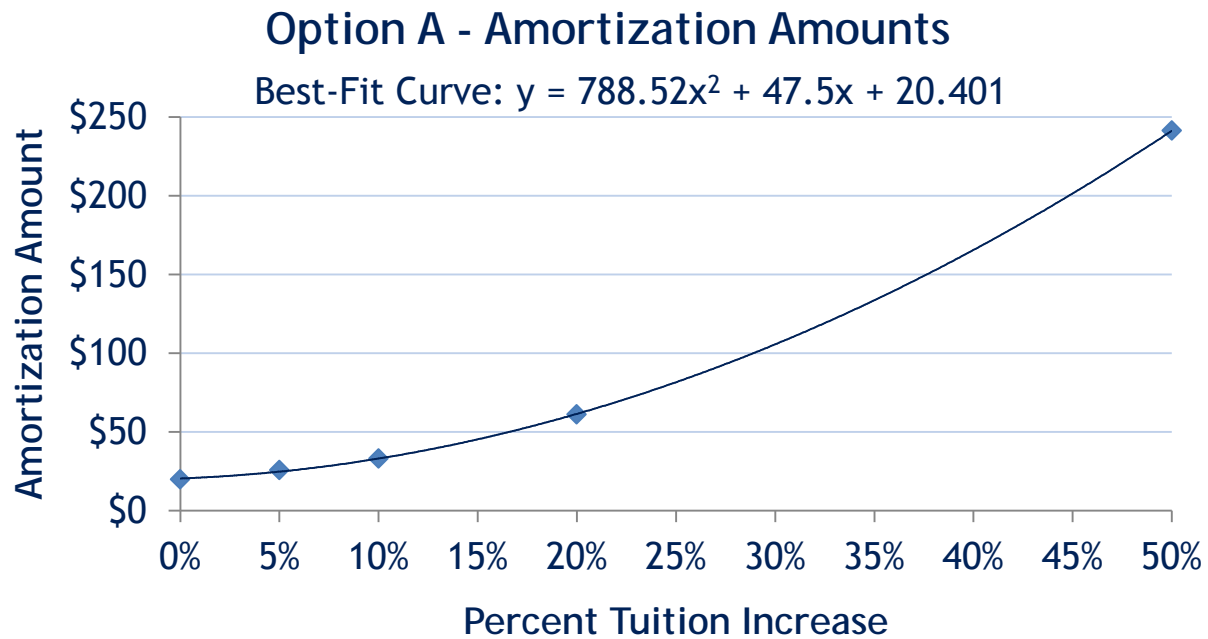
To estimate the change in a GET unit price we made the following changes:

We increased the expected cost components by the 2013 tuition growth rates above. In other words, if we increased tuition by 5 percent in the first year, we estimated the expected cost would be 5 percent higher as well.

We estimated that the expected decrease in unit sales due to differential tuition would be a linear proration of 25 percent of the corresponding Option A scenarios. We then spread the total required expense cost over the lower expected unit sales to derive the expense component cost.

The reserve component is 15 percent of the sum of expected cost and expense components.

To estimate the change to the amortization component, we plotted the amortization components from each of the Option A scenarios on a chart, found a best-fit curve, and used that best-fit curve to estimate amortization amounts for each of the Option B scenarios. The chart appears below.



Otherwise, the methods we use are consistent with the methods disclosed in the GAVR.

O:\GET\GET Advisory Committee\Differential\_Tuition\_Analysis\_Option B.docx



## Office of the State Actuary

*"Securing tomorrow's pensions today."*

September 28, 2012

Senator Rodney Tom  
Chair  
GET Legislative Advisory Committee  
PO Box 40448  
Olympia, WA 98504-0448

### **RE: ACTUARIAL ANALYSIS OF ALTERNATE TUITION GROWTH – OPTION J**

At your request, we performed preliminary actuarial analysis on the potential impacts on the Guaranteed Education Tuition (GET) program from alternate tuition growth assumptions that result for hypothetical increases in the percentage of state funding for higher education. We understand this analysis will complement other actuarial analysis that demonstrates the impacts to GET from "differential tuition\*" – an alternative policy approach for increasing funding for higher education.

Our most recent analysis of GET assumes the current percentage of state funding for higher education will drop from about 29 percent (for the 2013-14 school year) to 24 percent over the next six years.

The purpose of this analysis is to demonstrate the potential impacts to GET from assuming two alternate tuition growth paths that result from the following hypothetical state funding scenarios.

- ❖ The current percentage of state funding remains constant (hereafter referred to as "state funding remains constant").
- ❖ The current percentage of state funding increases to 40 percent over the next six years.

The results of our analysis are highly sensitive to assumed future purchaser behavior and future tuition growth. We did not have sufficient time to complete a comprehensive review of how these state funding scenarios may affect our current assumptions. For these reasons, this analysis demonstrates potential impacts under two defined scenarios only and does not represent our best-estimate analysis.

*\* For purposes of this analysis, differential tuition refers to a tuition-setting policy where rates of resident, undergraduate tuition vary by an institution's programs, campuses, courses, or students.*



*Actuarial Analysis of Alternate Tuition Growth – Option J*  
*Page 2 of 9*

Summary of Results			
<i>(Dollars in Millions – Except for GET Unit Price)</i>	Current Assumptions	State Funding Remains Constant	State Funding Increases to 40% Over 6 Years
Current GET Unit Price	\$172	\$163	\$142
Unfunded Liability	\$631	\$473	\$138
Chance of State Contribution over 50 years	1.00%	0.60%	0.20%
Worst Case 50-Year State Contributions	\$1,852	\$1,563	\$854
Chance of Purchaser Experiencing Negative Return	3.00%	3.50%	4.70%
Chance of Average Annual Sales Below 750,000 Units	18.30%	16.50%	12.40%
Average Expected Annual Units Sold (Next 20 Years)	936,803	965,334	1,045,474

Please see the rest of this letter for further details and supporting information.

### Impact on GET Program Status

When we update the current status of the GET program to apply the alternate tuition growth scenarios defined above, the expected cost of every unredeemed GET unit that has already been sold immediately decreases from lower assumed future tuition growth (please see the Appendix for details on how the tuition growth assumptions changed in this analysis). However, the assets collected from past purchasers, plus the associated investment returns, remain unchanged.

The following table displays the impacts on GET's current liability, assets, unfunded liability, and funded status from the scenarios defined above.

Impact on GET Program Status*			
<i>(Dollars in Millions)</i>	Current Assumptions	State Funding Remains Constant	State Funding Increases to 40% Over 6 Years
Present Value of all GET Contracts	\$2,942	\$2,784	\$2,449
Market Value of Assets	\$2,311	\$2,311	\$2,311
Unfunded Liability	\$631	\$473	\$138
Funded Status	79%	83%	94%

\*At June 30, 2012.

### Current GET Price-Setting Guidelines

The GET Committee adopts price-setting guidelines (how we price future units) to manage the risks of the program. The current GET unit price includes the following four components:

- ❖ **Expected Cost** – Covers the expected cost of future tuition and certain administrative expenses.



- ❖ **Expenses** – Covers the GET program’s annual operating expenses.
- ❖ **Reserve** – Covers unexpected future costs such as above-expected tuition growth or below-expected investment returns. The current price-setting guidelines call for a 15 percent reserve. This component can be increased or decreased to alter the probability that a unit will ever create unfunded liability in the future.
- ❖ **Amortization** – An optional component that covers unexpected past costs from significant program or policy changes. In 2011, the committee established a one-time 30-year amortization of the unfunded liability measured at June 30, 2011. It is important to collect amortization payments for the entire planned period. Ending the amortization sooner could effectively result in the use of reserve dollars (dedicated for future unexpected costs) for past unexpected losses.

### Impact On GET Unit Price

When we update the current status of the GET program to apply the alternate tuition growth scenarios defined above and apply the current price-setting guidelines, we observe the following changes to the GET unit price.

Impact on GET Unit Price			
Category	Current Assumptions	State Funding Remains Constant	State Funding Increases to 40% Over 6 Years
<b>Unit Price</b>			
Expected Cost	\$127.66	\$119.80	\$101.54
Expenses	5.33	5.14	4.80
Reserve	19.95	18.74	15.95
Amortization	19.73	19.73	19.73
<b>Total Unit Price</b>	<b>\$172.00</b>	<b>\$163.00</b>	<b>\$142.00</b>

*Note: Total unit price rounded down.*

The expense component decreases by less than the percent decrease in the expected cost for these scenarios because it is collected over assumed future purchases. As the price premium decreases (total unit price ÷ unit value of \$117.82), we expect more future purchases. Therefore, the price of the expense component decreases to collect the same total dollars over more assumed future purchases. The amortization component does not change in these scenarios because we assume the GET Committee will retain the current amortization component until the program’s funded status reaches 115 percent.



## Impact On Program Risk

The program's future success depends on maintaining a delicate balance between risk and affordability. In this case, "risk" represents the risk of the state needing to make a contribution to the program and "affordability" represents the affordability of future GET units. Improving one risk will typically increase the risk of the other.

The following table summarizes how key risk metrics change under the defined scenarios.

Risk Category	Key Risk Metrics		
	Current Assumptions	State Funding Remains Constant	State Funding Increases to 40% Over 6 Years
Chance of State Contribution over 50 years	1.0%	0.6%	0.2%
Worst Case 50-Year State Contributions ( <i>Dollars in Millions</i> )	\$1,852	\$1,563	\$854
Chance of Funded Status Under 50% over 50 years	21.7%	16.3%	7.7%
Chance of Purchaser Experiencing Negative Return*	3.0%	3.5%	4.7%
Chance of Average Annual Sales Below 750,000 Units	18.3%	16.5%	12.4%
Average Expected Annual Units Sold (Next 20 Years)	936,803	965,344	1,045,474

*\*The chance of a purchaser experiencing a negative return increases with lower assumed tuition growth because the amortization component, which does not benefit the purchaser, becomes a larger percentage of the total unit price.*

When we apply the current price-setting guidelines, we expect the tuition growth decreases under the defined scenarios (which lead to lower future unit prices) will increase future unit sales by about 3 and 12 percent respectively. With greater future sales, the GET program collects more future dollars to protect against future adverse experience and to recover from past losses. As a result, the risks to the program generally decrease. With lower assumed future tuition increases, we also expect lower future program payouts. This lowers the chance and amount of state contributions in the future. We observed a decrease in both the chance and amount of state contributions to the program over the next 50 years.





## **Actuarial Certification**

We prepared this preliminary analysis to assist the Legislature in evaluating the potential impacts of alternate tuition growth assumptions on the GET program under two defined state funding scenarios. Please do not use this analysis for other purposes.

This analysis involves calculations that require assumptions about future economic and demographic events. Actuarial Standards of Practice (ASOP) for prepaid tuition programs have not been defined within the actuarial profession. We used the ASOPs for pensions where possible to guide our analysis of GET. We believe that the assumptions, methods, and calculations used in this analysis are reasonable and appropriate for the primary purpose as stated above, and are in conformity with generally accepted actuarial principles and standards of practice as of the date of this letter. The use of another set of assumptions and methods, however, could also be reasonable and could produce materially different results.

Since the analysis is based on assumptions about future events, actual results will differ to the extent that future experience differs from those assumptions. Significant differences between the actual and assumed future enrollments will impact the results. This analysis will need to be updated in the future if the Legislature enacts either major reform to current tuition policy or other changes to GET.

The GET Program staff provided the participant, asset, and historical data to us. The Washington State Investment Board (WSIB) also provided recent asset data to us. We checked the data for reasonableness as appropriate based on the purpose of this analysis. An audit of the data was not performed. We relied on all the information provided as complete and accurate. In our opinion, this information is adequate and substantially complete for the purposes of this analysis.

We advise readers of this analysis to seek professional guidance as to its content and interpretation, and not to rely upon this communication without such guidance. Please read the analysis shown in this communication as a whole. Distribution of, or reliance on, only parts of this analysis could result in its misuse and may mislead others.

The analysis in this letter will become outdated very quickly. Please replace this analysis with any future actuarial analysis.

Consistent with the actuarial Code of Professional Conduct, I (Matthew Smith) must disclose any potential conflict of interest. I have purchased units in GET; however, this does not impair my ability to act fairly. I have performed all analysis without bias or influence. The GET Committee contracted with OSA to perform actuarial analysis for the GET Legislative Advisory Committee, and I supervised the actuarial analysis performed.





The undersigned, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein and are available to provide extra guidance and explanations as needed.

Sincerely,

Matthew M. Smith, FCA, EA, MAAA  
State Actuary

Troy Dempsey, ASA, EA, MAAA  
Actuary

cc: Betty Lochner, Director  
Guaranteed Education Tuition  
Larry Lee, Deputy Director  
Guaranteed Education Tuition



## **Appendix – Data, Assumptions and Methods**

### ***Data We Used***

The data and assets we used are consistent with the data and assets disclosed in the *June 30, 2012, GET Actuarial Valuation Report (GAVR)*.

### ***Assumptions We Made***

Most of the assumptions we made are consistent with the assumptions disclosed in the GAVR. We made the following assumption changes to complete this analysis:

We assumed the GET Committee would lower the price of a GET unit consistent with the decrease in expected tuition from the alternate tuition growth assumptions. Should the committee decide to hold the current unit price constant, or adopt different price-setting guidelines under these hypothetical scenarios, the results of our analysis would change.

We assumed that the GET Committee would retain the current amortization until the program's funded status reaches 115 percent.

For purposes of these scenarios, we changed the tuition growth rates as displayed below.

School Year	Tuition Growth		
	Current Assumptions	State Funding Remains Constant	State Funding Increases to 40% Over 6 Years
2013-14	12.0%	12.0%	12.0%
2014-15	10.0%	7.0%	3.5%
2015-16	10.0%	7.0%	3.5%
2016-17	8.0%	7.0%	3.5%
2017-18	5.5%	5.5%	2.0%
2018-19	5.5%	5.5%	1.7%
2019-20+	5.5%	5.5%	5.5%

We used the assumption development method described in the GAVR, except we changed the assumed state funding percentage for each scenario as shown below.



*Actuarial Analysis of Alternate Tuition Growth – Option J*  
*Page 8 of 9*

Tuition Growth Assumption Structure - State Funding Remains Constant						
(Dollars in Thousands)		Step 1 – Inflation		Step 2 - State Funding		
School Year	Total Dollars	Inflationary Growth	Assumed State %	State Dollars	Tuition Dollars	Tuition Growth After State Funding
2011-12	\$721,922		36.3%	\$318,522	\$403,400	
2012-13	686,000		30.9%	212,000	474,000	17.5%
2013-14	725,510	5.8%	28.9%	209,465	516,045	8.9%
2014-15	765,413	5.5%	28.9%	220,986	544,427	5.5%
2015-16	807,511	5.5%	28.9%	233,140	574,371	5.5%
2016-17	851,924	5.5%	28.9%	245,962	605,961	5.5%
2017-18	898,780	5.5%	28.9%	259,490	639,289	5.5%
2018-19	948,213	5.5%	28.9%	273,762	674,450	5.5%
2019-20	1,000,364	5.5%	28.9%	288,819	711,545	5.5%
2020-21	1,055,384	5.5%	28.9%	304,704	750,680	5.5%
2021-22	1,113,430	5.5%	28.9%	321,463	791,967	5.5%
2022-23	1,174,669	5.5%	28.9%	339,144	835,526	5.5%
2023-24	1,239,276	5.5%	28.9%	357,796	881,479	5.5%

*\*2012 through 2014 data provided by UW.*

Tuition Growth Assumption Structure - State Funding Remains Constant						
Step 3 - Peer Catch Up						
School Year	Peer Funding (per FTE)	Peer Funding Growth	UW Funding (per FTE)	UW Funding Growth	UW Funding as % of Peer	Tuition Growth After State Funding & Peer Catch Up
2011-12	\$28,537	5.50%	\$24,902	7.00%	87%	
2012-13	30,106	5.50%	25,936	4.15%	86%	16.0%
2013-14	31,762	5.50%	28,140	8.50%	89%	12.0%
2014-15	33,509	5.50%	30,110	7.00%	90%	7.0%
2015-16	35,352	5.50%	32,218	7.00%	91%	7.0%
2016-17	37,296	5.50%	34,473	7.00%	92%	7.0%
2017-18						5.5%



*Actuarial Analysis of Alternate Tuition Growth – Option J*  
*Page 9 of 9*

Tuition Growth Assumption Structure - State Funding Increases to 40% Over 6 Years						
(Dollars in Thousands)		Step 1 – Inflation		Step 2 - State Funding		
School Year	Total Dollars	Inflationary Growth	Assumed State %	State Dollars	Tuition Dollars	Tuition Growth After State Funding
2011-12	\$721,922		36.3%	\$318,522	\$403,400	
2012-13	686,000		30.9%	212,000	474,000	17.5%
2013-14	725,510	5.8%	28.9%	209,465	516,045	8.9%
2014-15	765,413	5.5%	31.2%	238,590	526,823	2.1%
2015-16	807,511	5.5%	33.4%	269,882	537,629	2.1%
2016-17	851,924	5.5%	35.6%	303,467	548,457	2.0%
2017-18	898,780	5.5%	37.8%	339,482	559,298	2.0%
2018-19	948,213	5.5%	40.0%	379,285	568,928	1.7%
2019-20	1,000,364	5.5%	40.0%	400,146	600,219	5.5%
2020-21	1,055,384	5.5%	40.0%	422,154	633,231	5.5%
2021-22	1,113,430	5.5%	40.0%	445,372	668,058	5.5%
2022-23	1,174,669	5.5%	40.0%	469,868	704,801	5.5%
2023-24	1,239,276	5.5%	40.0%	495,710	743,566	5.5%

*\*2012 through 2014 data provided by UW.*

Tuition Growth Assumption Structure - State Funding Increases to 40% Over 6 Years						
Step 3 - Peer Catch Up						
School Year	Peer Funding (per FTE)	Peer Funding Growth	UW Funding (per FTE)	UW Funding Growth	UW Funding as % of Peer	Tuition Growth After State Funding & Peer Catch Up
2011-12	\$28,537	5.50%	\$24,902	7.00%	87%	
2012-13	30,106	5.50%	25,936	4.15%	86%	16.0%
2013-14	31,762	5.50%	28,140	8.50%	89%	12.0%
2014-15	33,509	5.50%	30,110	7.00%	90%	3.5%
2015-16	35,352	5.50%	32,218	7.00%	91%	3.5%
2016-17	37,296	5.50%	34,473	7.00%	92%	3.5%
2017-18						2.0%
2018-19						1.7%
2019-20						5.5%

### Methods We Used (How We Applied The Assumptions)

The methods we use are consistent with the methods disclosed in the GAVR.

## **CONSIDERATIONS REGARDING CREATION OF A GET 2 PROGRAM AND CLOSING GET 1**

### **OVERVIEW**

As of June 30, 2012, the GET Program has an unfunded liability of \$631 million and, therefore, a funded status of 78.5%. This liability is an obligation of the state. (RCW 28B.95.050)

Statute specifies a refund process should the State opt to close the GET Program. The language states that in the event that the State declares a discontinuance of the current program for any reason, the program will cease to accept any further contracts and any beneficiaries who are more than 4 years away from graduation from a secondary school "shall receive a refund equal to the value of the current tuition units in effect at the time that the program was declared discontinued." (RCW 28B.95.090)

The unit payout value of a GET unit is not defined in statute, but instead in the GET contract. This value is defined as: "1 percent of the highest resident undergraduate tuition and fees at four-year state institutions of higher education for the academic year at the time of distribution."

### **PREVIOUS GET 2 PROPOSAL**

SB 5749 was introduced during the 2011 legislative session. This bill would have created a GET 2 program. The original version of this bill did the following:

- Redefined "tuition and fees" to include operating fees and building fees, but no longer included services and activities fees.
- Redefined the payout value for new purchasers to be the price of tuition and fees at the time of purchase multiplied by the average percentage increase in resident undergraduate tuition and fees at all state colleges weighted by the number of full-time equivalent resident undergraduate students.
- Shortened the length of time for beneficiaries to use their tuition units from 10 years to 6 years
- Modified the amount of the refund for individuals who choose not to participate in higher education from the current value of tuition units less administrative fees and any applicable penalties to the lesser of: 1) the actual dollar value of contributions plus actual interest earned, or 2) the newly redefined payout value less administrative fees and any applicable penalties.

The enacted version of the bill (ESSB 5749) did not create a GET 2 program and instead created the Legislative Advisory Committee to the GET Committee and involved the State Actuary in the process of establishing a tuition unit price used in ensuing enrollment periods.

### **CLOSING GET 1**

If the Legislature opts to close GET 1 to new participants, the following are potential considerations:

- The unfunded liability remains.
- Current contract holders are contractually entitled to receive the value of GET units under the existing contract.

- Declared closure will trigger the refund process; but changes made to current law and/or the GET contract without the formal declaration will bifurcate the program into two separate and distinct programs and will not trigger the refund process.
- A decision is needed about whether the closure should happen immediately or be phased in over time.

## CREATING GET 2

If the Legislature opts to create a GET 2 program, the following are potential considerations:

- The unfunded liability in GET 1 remains. One of the three options listed under "Managing the Unfunded Liability" will need to be adopted to address this liability.
- Any changes made impact only future contract holders.
- Specific changes will need to be identified (e.g. payout value, definitional changes, length of time for use of credits, refund process and amounts, etc.).
- A decision is needed about whether the creation of GET 2 should happen immediately or be phased in over time.
- A decision is needed about whether comingling of funds should occur among GET 1 and GET 2. It is unlikely there will be legal prohibitions on comingling the funds because the GET Account is a component of a defined benefit program and is not a traditional trust account.

## MANAGING THE UNFUNDED LIABILITY

The following are options for managing the unfunded liability:

- **Option 1: Making an appropriation in a lump sum or over time**
  - ♦ Lump sum: \$0.631 billion
  - ♦ When unfunded payments are due: \$1.675 billion total (see the attached schedule of payments)
  - ♦ Even amount annually: \$1.136 billion total, amounting to \$47.4 million per year or \$94.8 million per biennium over the next 24 years
- **Option 2: Incorporate amortization of the unfunded liability into the unit price for GET 2 participants**
  - ♦ Under a scenario where the GET 2 payout was linked to a weighted average of resident undergraduate tuition at the public four year institutions (and the average long-term sales assumptions remain unchanged), the price of a unit would be \$113, and \$19.73 (or 17.5%) would pay for the unfunded liability portion of GET 1. (NOTE: If sales drop by 25%, the price of a unit would be \$122, and \$26.31 (or 22%) would pay for the unfunded liability portion of GET 1.)
  - ♦ Disclosure is required to GET 2 participants of what portion of their unit price would be utilized to pay for the GET 1 liability.
- **Option 3: A combination of options 1 and 2**

**PLEASE NOTE: The information contained in this document excludes the impact of differential tuition. If differential tuition were to be implemented, it is possible that the current unfunded liability would increase, which could cause an increase in price and could negatively impact the number of units sold whether or not a GET 2 is created.**

**OPTION 1B: Making Payments When They are Due****(This excludes the impact of differential tuition)**

<b>Fiscal Year</b>	<b>State Contributions (\$ in Millions)</b>
2011	
2012	
2013	
2014	
2015	
2016	
2017	
2018	
2019	
2020	
2021	
2022	
2023	
2024	
2025	\$112
2026	\$292
2027	\$281
2028	\$261
2029	\$225
2030	\$183
2031	\$134
2032	\$92
2033	\$56
2034	\$9
2035	\$11

**Hovde, Maria**

---

**From:** Pringle, David (OPR)  
**Sent:** Friday, October 19, 2012 4:07 PM  
**To:** Alexander, Rep. Gary; Brown, Senate Majority Leader Lisa; Hasegawa, Rep. Bob; Hewitt, Sen. Mike; Hill, Sen. Andy; Orcutt, Rep. Ed; Reykdal, Rep. Chris; Tom, Sen. Rodney  
**Cc:** Hovde, Maria; Jones, Steve; Lucero, Catrina; Smith, Matt  
**Subject:** FW: GET - "Option B" legal issues

Senators and Representatives of the Legislative Advisory Committee on Advanced Tuition Payment,

Yesterday, the State Actuary's Office alerted me to the fact that I overlooked a message clarifying their initial impressions of the "Option B" analysis, and they pointed out a mistaken assumption.

First, they have pointed out that the scale of the costs of additional refunds not reflected in their preliminary analysis could be muted because GET contract holders average slightly less than 200 units, rather than the 400 units that would be needed to assume some of the annual impacts on the table for all GET contract holders. The result of this difference is that some of the "refund exposure" from the higher unit value created by differential tuition would be absorbed in some cases by otherwise uncovered costs of higher education expenses in years 3 and 4 of a beneficiaries course of study.

Also, they believe that the combination of negative tax consequences of withdrawals and the gains to the funded status of GET that occur when unused units are transferred to a younger beneficiary, resulting in delayed GET payout, may reduce the level of costs from the additional refunds out of GET to within the level of conservatism built-in to the preliminary analysis of Option B. Matt Smith can provide additional background on the details of the assumptions in the preliminary analysis.

If members of the Advisory Committee continue to have interest in this option, please let me know. Both the pricing and policy analysis of the option can be further refined.

David Pringle  
Pension Counsel  
House Ways and Means Committee  
(360) 786-7310



---

**From:** Pringle, David (OPR)  
**Sent:** Thursday, October 18, 2012 10:08 AM  
**To:** Alexander, Rep. Gary; Brown, Senate Majority Leader Lisa; Hasegawa, Rep. Bob; Hewitt, Sen. Mike; Hill, Sen. Andy; Orcutt, Rep. Ed; Reykdal, Rep. Chris; Tom, Sen. Rodney  
**Cc:** Hovde, Maria; Jones, Steve; Lucero, Catrina  
**Subject:** GET - "Option B" legal issues

Senators and Representatives of the Legislative Advisory Committee on Advanced Tuition Payment,

During discussion at the October 2<sup>nd</sup> meeting of the Legislative Advisory Committee on Advanced Tuition Payment of "Option B", one of the policy alternatives to change the Guaranteed Education Tuition (GET) program, I expressed concern that this option might raise an equal protection legal issue. As this proposal does not involve charging different tuition rates to GET and non-GET holding students, I do not believe it raises equal protection concerns.

This concern was based on my understanding that this option would provide a different cost of tuition to resident undergraduate students depending on whether they were using units in the GET program, or if they were paying by other means. This was a misunderstanding on my part, based largely on reading the fiscal analysis performed by the State Actuary and provided that morning. However the analysis also reflected a misunderstanding of the policy, and does not reflect significant fiscal impacts of the option to either GET or to the institutions.

Rather than charging different tuition levels depending on GET status, the proposal is instead to (1) require State public higher education institutions to accept each GET unit at the value of 1 percent of the highest undergraduate tuition, as now, including the cost of differential tuition if implemented in the future; (2) require institutions collecting differential tuition to waive differential tuition costs that the GET program would otherwise pay, and absorb the impact of those uncollected revenues; (3) increase the value of GET for all other purchases of tuition and other eligible education expenses to reflect the fact that tuition including differential tuition is now the GET payout value; and (4) require those other institutions to also waive tuition and other eligible educational costs up to the value of differential tuition charged at the high cost institutions.

The effect of the waiver extending beyond the institution or program charging the differential tuition, and beyond the cost of tuition alone, creates unexpected results. These are generated particularly where the low-cost institutions could be required to waive virtually the entire cost of tuition, books and supplies, leaving the GET program to potentially refund nearly the entire value (rather than just a portion) of the GET account as well. In the case of the Community Colleges, where about 15 percent of all GET units are used, this dynamic would be the most pronounced.

The table below illustrates a portion of this effect using the 50% above base tuition example for differential tuition, corresponding with the high estimates in the State Actuary's fiscal analysis, and similar the to example provided by the University of Washington at the October 2<sup>nd</sup> meeting for their Engineering program (\$5000). Interestingly, under the 50% scenario illustrated the differential tuition could be a net cost to the University of Washington as well, based on the amount of tuition waiver that might have to be provided GET students in all programs, as compared to the additional revenue from non-GET students in the programs charging the differential tuition.

**ILLUSTRATIVE EXAMPLE OF POTENTIAL FISCAL IMPLICATIONS ASSOCIATED WITH OPTION B**  
**Differential Tuition Charges -- 50% above base tuition & mandatory fees**  
 (NOTE: Numbers are for illustrative purposes only and do not necessarily reflect actual costs)

**GET VALUE CALCULATION:**

Base Tuition & Mandatory Fees	\$12,000
Differential Tuition Charges	\$6,000
Total GET Value	\$18,000

**EFFECT OF OPTION B AT THE STUDENT LEVEL:**

	UW other	UW Engineering	CWU	CTC	Private/Out-of-State
Base Tuition & Mandatory Fees	\$12,000	\$12,000	\$7,000	\$4,000	\$20,000
Differential Tuition Charges (engineering)	\$0	\$6,000	\$0	\$0	\$0
Room & Board	\$10,500	\$10,500	\$6,500	\$0	\$15,000
Books & Supplies	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Total Eligible Higher Education Expenses	\$25,500	\$31,500	\$16,500	\$7,000	\$38,000
GET Value (cash)	\$12,000	\$12,000	\$12,000	\$12,000	\$18,000
GET Value (waiver/foregone revenue to the institutions)	\$6,000	\$6,000	\$6,000	\$6,000	\$0
Total GET Value	\$18,000	\$18,000	\$18,000	\$18,000	\$18,000
Remaining GET value/(unfunded expenses)	(\$7,500)	(\$13,500)	\$1,500	\$11,000	(\$20,000)

**NOTE:** Remaining GET value can be carried forward for use in additional years of higher education. However, there may be additional negative impacts to the unfunded liability beyond those noted in the actuarial analysis of Option B if students instead pursue refunds (the value of GET units less applicable tax penalties) of the remaining value of their GET units from the GET account.

**EFFECT OF OPTION B AT THE INSTITUTION LEVEL:**

	UW other	UW Engineering	CWU	CTC	Private/Out-of-State
Total # of GET Students (based on 2011-12 academic year)	3,892	432	941	2,484	5,586
Total 2012 UW engineering undergraduate enrollment:		4085			
Total Amount of Tuition Waiver (Revenue Foregone) (\$6,000 x # of GET students)	\$23,349,600	\$2,594,400	\$5,646,960	\$14,904,000	\$0

Refund cost to GET Students (or additional GET liability):			\$1,411,740	\$27,324,000
Additional institutional/GET costs, annually:	\$23,349,600	\$2,594,400	\$7,058,700	\$42,228,000
Total diff. tuition revenue from UW engineering example:		\$24,510,000		

These additional refund costs to the GET program generated by the “option B” policy are also not reflected in the analysis provided by the State Actuary.

I apologize for any confusion that I might have caused, and hope that this clarifies the mechanisms described in this policy option. Please let me know if you have any questions.

David Pringle  
Pension Counsel  
House Ways and Means Committee  
(360) 786-7310

**ILLUSTRATIVE EXAMPLE OF POTENTIAL FISCAL IMPLICATIONS ASSOCIATED WITH OPTION B****Differential Tuition Charges - 5% above base tuition & mandatory fees****(NOTE: Numbers are for illustrative purposes only and do not necessarily reflect actual costs)****GET VALUE CALCULATION:**

Base Tuition & Mandatory Fees	\$12,000
Differential Tuition Charges	\$600
Total GET Value	\$12,600

**EFFECT OF OPTION B AT THE STUDENT LEVEL:**

	UW Other	UW Engineering	CWU	CTC	Private/Out-of-State
Base Tuition & Mandatory Fees	\$12,000	\$12,000	\$7,000	\$4,000	\$20,000
Differential Tuition Charges (engineering)	\$0	\$600	\$0	\$0	\$0
Room & Board	\$10,500	\$10,500	\$6,500	\$0	\$15,000
Books & Supplies	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Total Eligible Higher Education Expenses	\$25,500	\$26,100	\$16,500	\$7,000	\$38,000
GET Value (cash)	\$12,000	\$12,000	\$12,000	\$12,000	\$12,600
GET Value (waiver/foregone revenue to the institutions)	\$600	\$600	\$600	\$600	\$0
Total GET Value	\$12,600	\$12,600	\$12,600	\$12,600	\$12,600
Remaining GET value/(unfunded expenses)	(\$12,900)	(\$13,500)	(\$3,900)	\$5,600	(\$25,400)

**NOTE: Remaining GET value can be carried forward for use in additional years of higher education. However, there may be additional negative impacts to the unfunded liability beyond those noted in the actuarial analysis of Option B if students instead pursue refunds (the value of GET units less applicable tax penalties) of the remaining value of their GET units from the GET account.**

**EFFECT OF OPTION B AT THE INSTITUTION LEVEL:**

	UW Other	UW Engineering <sup>1</sup>	CWU <sup>2</sup>	CTC	Private/Out-of-State
Total # of GET Students (based on 2011-12 academic year)	3,892	432	941	2,484	5,586
Total # of Non-GET Engineering Students		4,085			
Total Amount of Tuition Waiver (Revenue Foregone) (\$600 x # of GET students)	(\$2,334,960)	(\$259,440)	(\$564,696)	(\$1,490,400)	\$0
Total Amount of Differential Tuition Received (\$600 x # of Non-GET Engineering students)	\$0	\$2,451,000	\$0	\$0	\$0
Net Tuition Revenue Gain/(Loss)	(\$2,334,960)	\$2,191,560	(\$564,696)	(\$1,490,400)	\$0

<sup>1</sup>Assumes that 10% of UW GET students participate in Engineering.<sup>2</sup>Assumes that 22% of GET students in regional universities attend CWU.

# ILLUSTRATIVE EXAMPLE OF POTENTIAL FISCAL IMPLICATIONS ASSOCIATED WITH OPTION B

Differential Tuition Charges -- **50%** above base tuition & mandatory fees

(NOTE: Numbers are for illustrative purposes only and do not necessarily reflect actual costs)

## GET VALUE CALCULATION:

Base Tuition & Mandatory Fees	\$12,000
Differential Tuition Charges	\$6,000
Total GET Value	\$18,000

## EFFECT OF OPTION B AT THE STUDENT LEVEL:

	UW Other	UW Engineering	CWU	CTC	Private/Out-of-State
Base Tuition & Mandatory Fees	\$12,000	\$12,000	\$7,000	\$4,000	\$20,000
Differential Tuition Charges (engineering)	\$0	\$6,000	\$0	\$0	\$0
Room & Board	\$10,500	\$10,500	\$6,500	\$0	\$15,000
Books & Supplies	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Total Eligible Higher Education Expenses	\$25,500	\$31,500	\$16,500	\$7,000	\$38,000
GET Value (cash)	\$12,000	\$12,000	\$12,000	\$12,000	\$18,000
GET Value (waiver/foregone revenue to the institutions)	\$6,000	\$6,000	\$6,000	\$6,000	\$0
Total GET Value	\$18,000	\$18,000	\$18,000	\$18,000	\$18,000
Remaining GET value/(unfunded expenses)	(\$7,500)	(\$13,500)	\$1,500	\$11,000	(\$20,000)

**NOTE: Remaining GET value can be carried forward for use in additional years of higher education. However, there may be additional negative impacts to the unfunded liability beyond those noted in the actuarial analysis of Option B if students instead pursue refunds (the value of GET units less applicable tax penalties) of the remaining value of their GET units from the GET account.**

## EFFECT OF OPTION B AT THE INSTITUTION LEVEL:

	UW Other	UW Engineering <sup>1</sup>	CWU <sup>2</sup>	CTC	Private/Out-of-State
Total # of GET Students (based on 2011-12 academic year)	3,892	432	941	2,484	5,586
Total # of Non-GET Engineering Students		4,085			
Total Amount of Tuition Waiver (Revenue Foregone) (\$6,000 x # of GET students)	(\$23,349,600)	(\$2,594,400)	(\$5,646,960)	(\$14,904,000)	\$0
Total Amount of Differential Tuition Received (\$6,000 x # of Non-GET Engineering students)	\$0	\$24,510,000	\$0	\$0	\$0
Net Tuition Revenue Gain/(Loss)	(\$23,349,600)	\$21,915,600	(\$5,646,960)	(\$14,904,000)	\$0

<sup>1</sup>Assumes that 10% of UW GET students participate in Engineering.

<sup>2</sup>Assumes that 22% of GET students in regional universities attend CWU.

**LEGISLATIVE ADVISORY COMMITTEE TO THE GET COMMITTEE****Proposal for Handling Differential Tuition -- Senator Rodney Tom, Chair**

The Legislature granted tuition-setting authority to our public, four-year institutions so that they would have greater flexibility with which to manage their campuses, particularly in light of the reductions they were experiencing in state funds. Differential tuition authority is an important part of this flexibility and an excellent tool for our institutions to expand access to high-demand fields of study so that our citizens are better prepared to meet the workforce demands of the state. However, given the concerns of the impact differential tuition will have on the GET Program, the Legislature disallowed the authority via a budget proviso for the 2011-13 biennium.

The state established the GET Program to help make higher education more affordable and accessible to all citizens of the state. Furthermore, the state has a contractual obligation to individuals enrolled in the GET Program. With the current \$631 million unfunded liability, the Legislature also has a responsibility to ensure that any modifications in law do not worsen this existing unfunded liability and require additional funds from taxpayers of the state.

This proposal aims to strike a balance between the needs of our public institutions and achieving fiscal responsibility in the management of the unfunded liability of the GET Program.

**Proposal**

- Allow institutions (including branch campuses) to implement differential tuition, provided that the rate of tuition and fees that includes differential tuition does not exceed the highest level of non-differentiated resident undergraduate tuition and fees upon which the value of a GET unit is established. (Modified Option D)

**Benefits**

- Allows institutions to maintain the flexibility they desire to charge differential tuition rates, with some restrictions
- Does not negatively impact the existing unfunded liability of the GET program
- Maintains a higher education investment vehicle for Washington state citizens

**LEGISLATIVE ADVISORY COMMITTEE TO THE GET COMMITTEE**  
**Final Recommendation Votes**  
**as of January 4, 2013**

	SENATE				HOUSE				TOTAL
	Brown	Hewitt	Hill	Tom	Alexander	Hasegawa	Orcutt	Reyk Dahl	YES VOTES
<b>DIFFERENTIAL TUITION:</b>									
Allow differential tuition, but only for those schools that are not the basis for the GET value?	Yes	Yes	Yes	Yes				Yes	5
Disallow differential tuition for resident undergraduates (repeal effects of E2SHB 1795)?					Yes	Yes	Yes		3
<b>GET PROGRAM:</b>									
Make recommendation for GET closure?	Yes	Yes	Yes	Yes	No	No	Yes	Yes	6
If yes, honor the contracts for all beneficiaries contrary to statute?	Yes	Yes	Yes	Yes			Yes	Yes	6